NEW ISSUE
BOOK ENTRY ONLY

Ratings: Fitch: "A+"
Moody's: "A2"
S&P: "A+"
See "RATINGS" herein.

In the opinion of Ice Miller LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds, as defined herein, is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. Such exclusion is conditioned upon continuing compliance by the Authority, the Corporation, the Obligated Group Members and the Obligated Group Affiliates with the Tax Covenants, all as defined herein. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is exempt from income taxation in the State of Indiana. See "TAX MATTERS" herein.

$375,485,000
INDIANA HEALTH AND EDUCATIONAL FACILITY FINANCING AUTHORITY
HOSPITAL REFUNDING REVENUE BONDS, SERIES 2006B
(CLARIAN HEALTH OBLIGATED GROUP)
(NON-AMT)

Clarian Health Partners
Methodist | IU | Riley

Dated: Date of Delivery **Due: February 15 of years shown on inside cover**

The Bonds will be issued under and secured by the provisions of the Indenture described herein. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository (as defined herein) for the Bonds and individual purchases of the Bonds will be made in book-entry form only, all as described herein. Principal of and interest on the Bonds will be payable from the sources set forth herein by J.P. Morgan Trust Company, National Association, as trustee, to the registered owners of the Bonds (as long as the book-entry system is in effect, Cede & Co.). Subsequent disbursements of such principal and interest will be made to the individual purchasers of beneficial interests in the Bonds as described herein.

The Bonds will bear interest from the date of their delivery, payable on February 15 and August 15 of each year, commencing on February 15, 2007, at the interest rates per annum and will mature in the corresponding amounts set forth on the inside cover page hereof.

The Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity as described herein.

The Bonds are limited obligations of the Indiana Health and Educational Facility Financing Authority (the "Authority"), a public body politic and corporate under the laws of the State of Indiana, secured under the provisions of the Indenture and the Loan Agreement described herein, and will be payable from loan repayments made by Clarian Health Partners, Inc. (the "Corporation") and LaPorte Regional Health System, Inc. ("LaPorte," and together with the Corporation, the "Obligated Group"), under the Loan Agreement, and from certain funds held under the Indenture. The obligation of the Obligated Group to make such payments is evidenced and secured by the issuance of the 2006B Obligation (as defined herein) under and pursuant to the terms of the Master Indenture described herein, whereunder the Obligated Group is obligated to make payments on such 2006B Obligation according to the terms thereof. Payments on such 2006B Obligation are required to be in an amount sufficient to pay principal of and premium, if any, and interest on the Bonds when due. The Bonds are secured solely by the Indenture and are payable solely from payments under the Loan Agreement and such 2006B Obligation.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF INDIANA OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to prior sale and to the approval of legality by Ice Miller LLP, Indianapolis, Indiana, Bond Counsel, and the approval of certain matters for the Corporation by its general counsel, Norman G. Tabler, Jr., Esq., and for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana. It is expected that the Bonds in definitive form will be available for delivery through the facilities of The Depository Trust Company in New York, New York, on or about September 14, 2006.

Merrill Lynch & Co. **Citigroup**

August 25, 2006

$375,485,000
Indiana Health and Educational Facility Financing Authority
Hospital Refunding Revenue Bonds, Series 2006B
(Clarian Health Obligated Group)
(Non-AMT)

The Bonds shall mature on the dates and in the principal amounts, and bear interest at the rates, as follows:

Date	Principal Amount	Interest Rate	Price
February 15, 2007	$ 5,525,000	5.00%	100.514%
February 15, 2008	4,585,000	5.00%	101.653%
February 15, 2009	3,620,000	5.00%	102.629%
February 15, 2010	5,090,000	5.00%	103.454%
February 15, 2011	5,185,000	5.00%	104.175%
February 15, 2012	5,365,000	5.00%	104.676%
February 15, 2013	5,785,000	5.00%	105.146%
February 15, 2014	5,830,000	5.00%	105.507%
February 15, 2015	6,400,000	5.00%	105.620%
February 15, 2016	6,490,000	5.00%	105.768%
February 15, 2017	7,070,000	5.00%	105.371% †
February 15, 2018	7,425,000	5.00%	104.976% †
February 15, 2019	7,595,000	5.00%	104.582% †
February 15, 2020	8,080,000	5.00%	104.269% †
February 15, 2021	17,830,000	5.00%	103.956% †
February 15, 2022	25,475,000	5.00%	103.567% †
February 15, 2023	26,720,000	5.00%	103.257% †
February 15, 2024	28,260,000	5.00%	103.026% †
February 15, 2025	29,540,000	5.00%	102.871% †
February 15, 2026	31,100,000	5.00%	102.795% †
February 15, 2031	12,000,000	4.75%	99.566%

$50,325,000 5.00% Term Bond due February 15, 2030 — Price 102.564% †

$70,190,000 5.00% Term Bond due February 15, 2033 — Price 102.411% †

† Priced to first call date of February 15, 2016.

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This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon.

The information set forth under the captions "INTRODUCTION—The Authority," "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—Authority" has been furnished by the Authority. The information set forth under the caption "BOOK-ENTRY SYSTEM" has been furnished by DTC. All other information set forth herein has been obtained from the Corporation and other sources that are believed to be reliable, but the adequacy, accuracy or completeness of such information is not guaranteed by the Authority or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the Authority, DTC or the Corporation since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE AND THE MASTER INDENTURE HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NONE OF THESE STATES NOR ANY OF THEIR AGENCIES HAS PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The statements contained in this Official Statement, including, but not limited to, under the captions "FORECASTED DEBT SERVICE REQUIREMENTS," "BONDHOLDERS' RISKS" and "MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE" in APPENDIX A hereto and any other information provided by the Corporation that are not purely historical, are forward-looking statements, including statements of the Corporation's expectations, hopes and intentions, or strategies regarding the future.

The forward-looking statements herein are necessarily based on various assumptions and estimates, and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Official Statement would prove to be accurate.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Corporation on the date hereof, and the Corporation assumes no obligation to update any such forward-looking statements.

OFFICIAL STATEMENT

$375,485,000
Indiana Health and Educational Facility Financing Authority
Hospital Refunding Revenue Bonds, Series 2006B
(Clarian Health Obligated Group)
(Non-AMT)

INTRODUCTION

General

This Official Statement, including the cover page, preliminary pages and Appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale and delivery of $375,485,000 aggregate principal amount of Indiana Health and Educational Facility Financing Authority Hospital Refunding Revenue Bonds, Series 2006B (Clarian Health Obligated Group) (the "Bonds"), issued by the Indiana Health and Educational Facility Financing Authority (the "Authority").

Purpose

Clarian Health Partners, Inc. (the "Corporation" or "Clarian Health") is an Indiana nonprofit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). For additional information regarding the Corporation and its affiliates, see APPENDIX A hereto. The proceeds of the Bonds, together with other funds of the Corporation (if any), will be used to (i) currently refund all of the outstanding Indiana Health Facility Financing Authority Variable Rate Demand Hospital Revenue Bonds, Series 1996B and Series 1996C (Clarian Health Partners, Inc.), currently outstanding in the amount of $109,300,000, Indiana Health Facility Financing Authority Variable Rate Demand Hospital Revenue Bonds, Series 2000B and Series 2000C (Clarian Health Obligated Group), currently outstanding in the amount of $182,000,000, and Indiana Health Facility Financing Authority Variable Rate Demand Hospital Revenue Bonds, Series 2003H and Series 2003I (Clarian Health Obligated Group), currently outstanding in the amount of $95,000,000 (collectively, the "Refunded Bonds"); and (ii) pay certain costs of issuance of the Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Indenture and Loan Agreement

The Bonds will be issued pursuant to an Indenture of Trust and Pledge dated as of September 1, 2006 (the "Indenture"), by and between the Authority and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"). The proceeds of the Bonds will be loaned to the Corporation pursuant to a Loan Agreement dated as of September 1, 2006 (the "Loan Agreement"), between the Authority and the Corporation.

All capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings as in the Indenture or the Master Indenture (as defined below), as applicable. See "DEFINITIONS OF CERTAIN TERMS" in APPENDIX C hereto.

The Authority

The Authority was established on May 15, 2005, as the successor to the Indiana Health Facility Financing Authority (the "IHFFA"), pursuant to the provisions of Indiana Code 5-1-16, as amended (the "Act"), and is organized and existing under and by virtue of the provisions of the Act, as a public body politic and corporate, not an agency of the State of Indiana (the "State"), but an independent public instrumentality exercising essential public functions. Under the Act, in addition to financing facilities for institutions of higher education, the Authority is authorized to make loans to "participating providers" (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of “health facility property” (as defined in the Act).

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

The Master Indenture

The Bonds are secured under the provisions of the Indenture and the Loan Agreement and will be payable from payments required to be made by Members of the Obligated Group (as defined herein) under the Master Indenture and from certain funds held under the Indenture. The Master Note Obligation, Series 2006B (the “2006B Obligation”) will be issued by the Corporation under and pursuant to the terms of the Master Indenture, under which Members of the Obligated Group jointly and severally are obligated to make payments on the 2006B Obligation according to the terms thereof when due. As of the date of issuance of the Bonds (the “Issue Date”), the Corporation and LaPorte Regional Health System, Inc. (“LaPorte”) are the only Members of the Obligated Group under the Master Indenture. Payments on the 2006B Obligation are required to be in an amount sufficient to pay when due the principal of and premium, if any, and interest on the Bonds. The Bonds are secured solely by the Indenture and are payable solely from payments under the Loan Agreement and the 2006B Obligation.

The Obligated Group will also issue (i) a Master Note Obligation, Series 2006B-S1 (the “2006B-1 Swap Obligation”), which requires joint and several payments by the Obligated Group to Citigroup Financial Products Inc., pursuant to an ISDA Master Agreement, together with the Schedule thereto, all between the Corporation and Citigroup Financial Products Inc. (the “Citigroup Swap Agreement”), and a confirmation between the Corporation and Citigroup Financial Products Inc. (the “2006B-1 Confirmation”); and (ii) a Master Note Obligation, Series 2006B-S2 (the “2006B-2 Swap Obligation”), which requires joint and several payments by the Obligated Group to Merrill Lynch Capital Services, Inc., pursuant to an ISDA Master Agreement, together with the Schedule thereto, all between the Corporation and Merrill Lynch Capital Services, Inc. (the “Merrill Lynch Swap Agreement,” and together with the Citigroup Swap Agreement, the “Master Agreements”), and a confirmation between the Corporation and Merrill Lynch Capital Services, Inc. (the “2006B-2 Confirmation,” and together with the 2006B-1 Confirmation, the “2006B Confirmations”). The 2006B-1 Swap Obligation and the 2006B-2 Swap Obligation (collectively, the “2006B Swap Obligations”) will be issued to secure the payment by the Obligated Group under the respective 2006B Confirmations, which are being entered into in order to swap the interest rate relating to the 2006B Obligation from a fixed rate to a floating rate. See “PLAN OF FINANCE.”

On the date hereof, the Corporation and LaPorte are parties to a Master Trust Indenture dated as of December 1, 1996, with J.P. Morgan Trust Company, National Association (successor in interest to Bank One, Indianapolis, NA), as master trustee (the “Master Trustee”), which has been heretofore supplemented and amended from time to time and will be further supplemented and amended by a Series 2006B Supplemental Master Indenture dated as of September 1, 2006, between the Corporation and the Master Trustee (the Master Trust Indenture, as so supplemented and amended and as further supplemented and amended from time to time, shall hereinafter be referred to as the “Master Indenture”). The Corporation, LaPorte and other entities which become jointly and severally liable with the Corporation and LaPorte with respect to the obligations (the “Obligations”) issued under the Master Indenture will be referred to herein collectively as the “Obligated Group” or “Members of the Obligated Group,” and, each individually, as a “Member of the Obligated Group.”

Subject to certain conditions described herein, additional Members may be added from time to time to the Obligated Group and made jointly and severally liable with the Corporation and LaPorte with respect to Obligations

Outstanding under the Master Indenture. Additionally, Members may withdraw from the Obligated Group from time to time and be released from all liability with respect to the Obligations. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Entrance into the Obligated Group" and "—Cessation of Status as a Member of the Obligated Group" in APPENDIX C hereto.

Outstanding Indebtedness

On the date of issuance of the Bonds, certain other obligations described below will be outstanding under the Master Indenture. On December 31, 1996, the IHFFA issued $222,060,000 of its Hospital Revenue Bonds, Series 1996A (Clarian Health Partners, Inc.), and $109,300,000 of its Variable Rate Demand Hospital Revenue Bonds, Series 1996B and Series 1996C (Clarian Health Partners, Inc.) (the "1996B Bonds" and "1996C Bonds," respectively) (collectively, the "Series 1996 Bonds"). The Series 1996 Bonds, as well as the liquidity facility relating to the variable rate portion of the Series 1996 Bonds, are secured by Obligations (the "1996 Obligations") issued by the Corporation under the Master Indenture. A portion of the proceeds of the Bonds will be used to currently refund all of the currently outstanding 1996B Bonds and 1996C Bonds.

On November 21, 2000, the IHFFA issued $151,745,000 of its Hospital Revenue Bonds, Series 2000A (Clarian Health Obligated Group), and $200,000,000 of its Variable Rate Demand Hospital Revenue Bonds, Series 2000B and 2000C (Clarian Health Obligated Group) (the "2000B Bonds" and "2000C Bonds," respectively) (collectively, the "Series 2000 Bonds"). The Series 2000 Bonds, as well as the liquidity facilities relating to the variable rate portion of the Series 2000 Bonds and interest rate swap agreements relating to the Series 2000 Bonds, are secured by Obligations (the "2000 Obligations") issued by the Corporation under the Master Indenture. A portion of the proceeds of the Bonds will be used to currently refund all of the currently outstanding 2000B Bonds and 2000C Bonds.

On June 26, 2003, the IHFFA issued $180,000,000 of its Hospital Revenue Bonds, Series 2003A, Series 2003B, Series 2003C and Series 2003D (Clarian Health Obligated Group), $112,500,000 of its Taxable Hospital Revenue Bonds, Series 2003E and Series 2003F (Clarian Health Obligated Group), and $112,500,000 of its Taxable Hospital Revenue Bonds, Series 2003G (Clarian Health Obligated Group); and on August 12, 2003, the IHFFA issued $47,500,000 of its Variable Rate Demand Hospital Revenue Bonds, Series 2003H (Clarian Health Obligated Group) (the "2003H Bonds"), and $47,500,000 of its Variable Rate Demand Hospital Revenue Bonds, Series 2003I (Clarian Health Obligated Group) (the "2003I Bonds") (collectively, the "Series 2003 Bonds"). The Series 2003 Bonds, as well as the liquidity facilities relating to the variable rate portion of the Series 2003 Bonds and interest rate swap agreements relating to the Series 2003 Bonds, are secured by Obligations (the "2003 Obligations") issued by the Corporation under the Master Indenture. A portion of the proceeds of the Bonds will be used to currently refund all of the currently outstanding 2003H Bonds and 2003I Bonds.

On August 31, 2004, the Redevelopment District of the City of Carmel, Indiana issued $9,500,000 of its Tax Increment Revenue Bonds, Series 2004 (Illinois Street Project), for the purpose of financing certain infrastructure improvements near the Clarian North Medical Center (as described in APPENDIX A hereto), which bonds are secured by a guaranty executed by the Corporation (the "2004 Guaranty"). The 2004 Guaranty, as well as certain collateral agreements entered into by the Corporation relating to the 2004 Guaranty, are secured by Obligations (the "2004 Obligations") issued by the Corporation under the Master Indenture.

In 2004, the Corporation entered into several swap transactions (the "2004 Confirmations") with Merrill Lynch Capital Services, Inc. and Citigroup Financial Products Inc. (collectively, the "Swap Providers") pursuant to certain interest rate swap agreements entered into with such Swap Providers. The Obligated Group issued Obligations under the Master Indenture to secure its obligations to the Swap Providers under the 2004 Confirmations (the "2004 Swap Obligations"). These included ten swap transactions with a combined notional amount of $1,276,090,000. See "BONDHOLDERS' RISKS—Interest Rate Swap Risk."

On November 15, 2005, the Authority issued $328,425,000 of its Revenue Bonds (Clarian Health Obligated Group) Series 2005A, Series 2005B, Series 2005C and Series 2005D (collectively, the "Series 2005 Bonds"). The Series 2005 Bonds, as well as obligations under certain insurance agreements and interest rate swap agreements relating to the Series 2005 Bonds, are secured by Obligations (the "2005 Obligations") issued by the Corporation under the Master Indenture. The Series 2005 Bonds were issued to refund a portion of the Series 1996 Bonds and Series 2000 Bonds.

On January 24, 2006, the Authority issued $327,170,000 of its Hospital Revenue Bonds, Series 2006A (Clarian Health Obligated Group) (the "Series 2006A Bonds," and together with the Series 1996 Bonds, the Series 2000 Bonds, the Series 2003 Bonds and the Series 2005 Bonds, the "Prior Bonds"). The Series 2006A Bonds, as well as interest rate swap agreements relating to the Series 2006A Bonds, are secured by Obligations (the "2006A Obligations") issued by the Corporation under the Master Indenture.

The 1996 Obligations, the 2000 Obligations, the 2003 Obligations, the 2004 Obligations, the 2004 Swap Obligations, the 2005 Obligations and the 2006A Obligations are together referred to herein as the "Prior Obligations." The 2006B Obligation will be issued on a parity with the 2006B Swap Obligations and the Prior Obligations under the Master Indenture. See "SECURITY FOR THE BONDS—The Master Indenture" and "PLAN OF FINANCE."

The Bonds

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds may be made in book-entry form only in denominations of $5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. The Bonds will bear interest from the date of their delivery, payable on February 15 and August 15, commencing on February 15, 2007, at the interest rates per annum and will mature in the corresponding amounts set forth on the inside cover page of this Official Statement.

Principal of and premium, if any, and interest on the Bonds will be paid by the Trustee, as paying agent under the Indenture (or by any successor paying agent), directly to DTC, so long as DTC or its nominee is the registered owner of the Bonds. The final disbursement of such payments to Beneficial Owners will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. See "BOOK-ENTRY SYSTEM." In the event that the Bonds are no longer held in book-entry form, principal of and premium, if any, and interest on the Bonds will be payable at the corporate trust operations office of the Trustee.

The Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity as described herein. See "THE BONDS—Redemption."

Bondholders' Risks

Certain risk factors associated with the purchase of the Bonds are described under the caption "BONDHOLDERS' RISKS" herein.

Availability of Documents

This Official Statement contains descriptions of, among other matters, the Bonds, the 2006B Obligation, the Indenture, the Loan Agreement, the Master Indenture and the Corporation. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Loan Agreement and the Master Indenture are qualified in their entirety by reference to such documents, and references herein to the Bonds and the 2006B Obligation are qualified in their entirety by reference to the forms thereof included in the Indenture and the Master Indenture, respectively. Until the issuance and delivery of the Bonds, copies of the Indenture, the Loan Agreement, the Master Indenture and other documents described herein may be obtained from the Corporation, at Clarian Health Partners, Inc., 950 North Meridian Street, Suite 1200, Indianapolis, Indiana 46204, Attention: Alan Nelson, Corporate Treasurer. After delivery of the Bonds, copies of such documents will be available for inspection at the principal corporate trust office of the Trustee.

THE AUTHORITY

The Authority was established on May 15, 2005, as the successor to the IHFFA which was created in 1983 pursuant to the provisions of the Act. The Authority is organized and existing under and by virtue of the Act as a public body politic and corporate, not as an agency of the State, but an independent public instrumentality exercising essential public functions. Under the Act, in addition to financing facilities for institutions of higher education, the Authority is authorized to make loans to "participating providers" (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of "health facility property" (as defined in the Act). The Authority may finance health facility property located in Indiana or outside Indiana if the financing also includes a substantial component, as determined by the Authority, for the benefit of a health facility located in Indiana. Further, the participating provider (or an affiliate thereof) in any financing for a health facility outside Indiana must operate a substantial health facility, as determined by the Authority, in Indiana. The Authority has no taxing power.

The Act provides that the Authority shall consist of seven members, four of whom are appointed by the Governor of the State for terms of four years each. Two of the four members appointed by the Governor must be knowledgeable in health care or public finance and investment matters related to health care, and two of the members appointed by the Governor must be knowledgeable in higher education or public finance and investment matters related to higher education. The Authority shall also include among its members (i) the Governor or the Governor's designee, who shall serve as chairman of the Authority, (ii) the State public finance director or the State public finance director's designee, and (iii) the State health commissioner or the State health commissioner's designee. All Authority members must be residents of the State, with not more than three of the four members appointed by the Governor being of the same political party. All Authority members serve without compensation but are entitled to reimbursement for actual and necessary expenses as determined by the Authority. The Governor shall appoint an Executive Director to serve at the pleasure of the Governor and to receive such compensation as the members of the Authority shall determine. The Executive Director serves as an *ex officio* secretary of the Authority, administers, manages and directs the employees of the Authority (under the direction of the members of the Authority), approves all accounts and expenses and performs other and additional duties as directed by the members of the Authority.

The Act provides that the State pledges to, and agrees with, the holders of any obligations issued under the Act that it will not limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged; provided, however, that nothing in the Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations.

The Authority has undertaken and will continue to undertake other types of financings for the purposes authorized by and in accordance with the procedures set forth in the Act, including loans to other participating providers, equipment financing, small loan and pooled loan programs and project financing for private institutions of higher education. The Bonds neither have nor will have any claim of payment from the security or revenues pledged for the payment of the obligations issued by the Authority in connection with any and all such financings, and no such obligations have or will have any claim of payment from the security or revenues pledged for the payment of the Bonds. Obligations of the Authority outstanding or issued subsequent to the issuance of the Bonds are payable solely from the revenues derived from the programs or from participating providers or private institutions of higher education in connection with which such obligations were issued.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE

PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATED GROUP AND THE OBLIGATED GROUP AFFILIATES

The Obligated Group consists of the Corporation and LaPorte. As of the Issue Date, the Corporation expects to have designated the following affiliates as Obligated Group Affiliates: Goshen Health System, Inc. ("GHS") and Goshen Hospital Association, Inc. d/b/a Goshen General Hospital ("GHA," and together with GHS, "Goshen"); Methodist Occupational Health Centers, Inc.; Methodist Medical Group, Inc.; Emergency Medical Group, Inc.; MH Healthcare, Inc.; and Methodist Medical Group Physicians, Inc. See "THE OBLIGATED GROUP AFFILIATES" in APPENDIX A hereto. Entities may be designated Obligated Group Affiliates by the Corporation from time to time, and such designation may be rescinded by the Corporation from time to time. The Obligated Group Affiliates are not Members of the Obligated Group. See "SECURITY FOR THE BONDS—The Master Indenture—*Obligations*." The Obligated Group and the Obligated Group Affiliates are referred to herein collectively as the "Credit Group." The health care facilities operated by the entities comprising the Credit Group is referred to herein as the "Clarian Health System."

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds and to the Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See APPENDIX C hereto for a more detailed description of the provisions of the Bonds and the Indenture. Any reference herein to the Bonds or to the Indenture or other documents shall be deemed to mean the Bonds, the Indenture or such documents, unless the context or use clearly indicates otherwise. Certain terms used under this caption are defined in APPENDIX C hereto.

General

The Bonds will bear interest at the rates per annum and will mature in the corresponding amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds will accrue from the date of their delivery, and such interest is payable on February 15 and August 15 of each year, commencing on February 15, 2007 (each, an "Interest Payment Date"), to registered owners of the Bonds as of the first day of the month of the Interest Payment Date. Calculations of interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds will be issued in fully registered form only in denominations of $5,000 or any integral multiple thereof ("Authorized Denominations"). For so long as the Bonds are registered in the name of DTC or its nominee, payments of principal of and premium, if any, and interest on the Bonds will be paid by the Trustee (or any successor paying agent) only to DTC or its nominee. Neither the Authority nor the Trustee will have any responsibility for any Beneficial Owner's receipt from DTC or its nominee, or from any DTC Participant or Indirect Participant, of any payment of principal of or premium, if any, or interest on any Bonds. See "BOOK-ENTRY SYSTEM."

Redemption

Optional Redemption. The Bonds maturing on or after February 15, 2017 are subject to redemption prior to their stated maturity by the Authority, at the written direction of the Corporation (upon the simultaneous prepayment of a like principal amount of the 2006B Obligation), on any date on or after February 15, 2016, in whole or in part, in any order of maturity selected by the Corporation (or if the Corporation fails to designate such maturities, in inverse order of maturity) and in Authorized Denominations, and by lot within a single maturity in such manner as the Trustee may determine, at the redemption price of 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest to the redemption date, and without premium.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary optional redemption (in an amount not to exceed the available net proceeds of an insurance or condemnation award) in whole or in part in Authorized Denominations by the Authority, at the written direction of the Corporation (upon the simultaneous prepayment of a like principal amount of the 2006B Obligation), in any order of maturity selected by the Corporation (or if the Corporation fails to designate such maturities, in inverse order of maturity) and by lot within a maturity, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest to the redemption date, without premium, in the event any facilities of the Members of the Obligated Group or Obligated Group Affiliates financed or refinanced with the proceeds of the Bonds or any portion of such facilities shall have been damaged, destroyed or condemned, provided that the net proceeds of such insurance or condemnation award shall exceed $3,000,000 and that the applicable Member of the Obligated Group or Obligated Group Affiliate shall have determined not to use such net proceeds to rebuild, replace or repair such facilities.

Mandatory Sinking Fund Redemption. The following requirements of mandatory sinking fund redemption are subject to the provision that any partial redemption of the Bonds as described under the headings "—*Optional Redemption*" or "—*Extraordinary Optional Redemption*" above may reduce the mandatory scheduled redemption requirements as described below.

The Bonds maturing on February 15, 2030 and February 15, 2033 (collectively, the "Term Bonds") are subject to mandatory redemption on each February 15 described below (each such date, a "Sinking Fund Payment Date"), by lot in such manner as the Trustee shall determine, in an amount (herein called a "Mandatory Sinking Fund Payment") sufficient to redeem on such Sinking Fund Payment Date, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest to the redemption date, without premium, the Term Bonds of such maturity equal to the following principal amounts:

Sinking Fund Payment Date (February 15)	**Term Bonds Due February 15, 2030**	**Term Bonds Due February 15, 2033**
2027	$ 9,670,000	-
2028	10,095,000	-
2029	10,715,000	-
2030	19,845,000 †	-
2031	-	$ 25,570,000
2032	-	39,300,000
2033	-	5,320,000 †

† Final maturity

The Trustee shall select and call for redemption Term Bonds of the applicable maturity in the amounts specified above, and the Term Bonds selected by the Trustee shall become due and payable on such date. The Corporation may, in accordance with the option set forth in the Loan Agreement, reduce the amount of any Mandatory Sinking Fund Payment payable on any Sinking Fund Payment Date by an amount equal to the principal amount of outstanding Term Bonds of the applicable maturity that have been previously redeemed (except through the sinking fund) or shall be surrendered uncanceled, by the Corporation to the Trustee; provided, that the Corporation shall have surrendered such Term Bonds to the Trustee or instructed the Trustee to apply such redeemed Term Bonds as a credit not less than sixty (60) days prior to such Sinking Fund Payment Date.

In the event that Term Bonds are purchased by the Corporation or are redeemed at the option of the Corporation, the Term Bonds so purchased or redeemed may, at the option of the Corporation, be applied as a credit against any Mandatory Sinking Fund Payment relating to such Term Bonds, such credit to be equal to the principal amount of such Term Bonds purchased or redeemed, provided that the Corporation shall have delivered to the Trustee not less than sixty (60) days prior to such Sinking Fund Payment Date a Corporation Certificate stating its election to apply such Term Bonds as such a credit, with copy thereof to the Master Trustee. In such case, the Trustee shall reduce the amount of the Term Bonds of the applicable maturity to be redeemed on such Sinking Fund Payment Date by the principal amount of Term Bonds so purchased or so redeemed and immediately notify the Master Trustee thereof. In case of the failure of the Corporation, at or before the time required above, to present such Corporation Certificate, the Corporation shall not be permitted to make any such reduction in the amount of the Mandatory Sinking Fund Payment payable on such Sinking Fund Payment Date and the Trustee shall make no reduction in the amount of Term Bonds to be so redeemed on such Sinking Fund Payment Date.

Selection of Bonds for Redemption. Upon any redemption of Bonds in part, there will be no partial redemption of less than an Authorized Denomination. If less than all of the outstanding Bonds are called for redemption under any provision of the Indenture permitting partial redemption, the particular Bonds to be redeemed will be selected by the Trustee at the direction of the Corporation, by lot in such manner as the Trustee in its discretion may deem fair and appropriate consistent with the requirements of the Indenture.

Notice of Redemption. Notice of any redemption of Bonds, either in whole or in part, will be sent by the Trustee by first class mail, postage prepaid, not less than 30 days nor more than 60 days prior to the proposed redemption date, to all holders of the Bonds to be redeemed at their addresses as they appear on the registration books of the Trustee as of the close of business on the Business Day preceding the mailing. Each notice will (i) identify the Bonds to be redeemed (including the complete name of the Bonds, the interest rate, the dated date, the maturity date, the CUSIP number and the certificate number), the redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which will be the principal corporate trust operations office of the Trustee), and, if less than all of the Bonds are to be redeemed, the respective principal amounts of the Bonds to be redeemed, (ii) state that the Bonds called for redemption must be surrendered to collect the redemption price, and (iii) state that on the redemption date, the Bonds redeemed will cease to bear interest. A failure to give such notice to any holder or any defect in such notice, however, shall not affect the validity of the proceedings for the redemption of any of the other Bonds.

Securities Depository

Unless a successor Securities Depository (as defined herein) is designated pursuant to the Indenture, DTC will act as the Securities Depository for the Bonds. DTC and any successor securities depository appointed pursuant to the Indenture are referred to herein as the "Securities Depository." On the date of original issuance of the Bonds, one fully registered Bond for each maturity will be issued in the name of Cede & Co., as nominee of DTC, in the aggregate principal amount of each maturity of Bonds. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the owners or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. The Securities Depository or its nominee will be the owner of record of all issued and outstanding Bonds, and the Beneficial Owners may not obtain physical possession of the certificates representing the Bonds unless the Securities Depository resigns or is removed by the Corporation, as the "Obligated Group Agent," or by the Authority at the direction of the Obligated Group Agent in accordance with the Indenture and no successor Securities Depository is appointed. In such event the Beneficial Owners may obtain physical possession of certificates representing the Bonds that they beneficially own.

So long as DTC is the Securities Depository for the Bonds, payments of the principal of and premium, if any, and interest on the Bonds will be made directly by the Trustee to DTC or its nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners of the Bonds is the responsibility of the DTC Participants and Indirect Participants.

For further information regarding DTC and the book-entry-only system, see the information herein under the caption "BOOK-ENTRY SYSTEM."

The Beneficial Owners of the Bonds have no right to a Securities Depository. DTC or any successor Securities Depository may resign as Security Depository for the Bonds by giving notice to the Trustee and discharging its responsibilities under applicable law. In the event that the Obligated Group Agent determines that DTC is incapable of discharging its responsibilities or that it is in the best interest of the Beneficial Owners of the Bonds that they be able to obtain certificated Bonds, the Authority, at the direction of the Obligated Group Agent, shall appoint a successor Securities Depository qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, and the Trustee shall (i) notify the prior Securities Depository of the appointment of such successor Securities Depository and transfer certificated Bonds to such successor Securities Depository or (ii) notify the Securities Depository of the availability through the Securities Depository of certificated Bonds and transfer certificated Bonds to Securities Depository participants having Bonds credited to their accounts at the Securities Depository. In such event, the Bonds shall no longer be restricted to being registered in the name of the Securities Depository but may be registered in the name of the successor Securities Depository or its nominee or in such names as the Bondholders transferring or receiving the certificated Bonds shall designate in accordance with the Indenture.

In the event that no successor Securities Depository is appointed, such certificated Bonds shall be issued in fully registered form and shall be issued in Authorized Denominations to the Beneficial Owners.

BOOK-ENTRY SYSTEM

The following information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Authority, the Underwriters, the Trustee, the Master Trustee, the Corporation or any Member of the Obligated Group.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participant's accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," and together with Direct Participants, "Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com* and *www.dtc.org*.

Purchases of Bonds under the DTC System must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owners") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written conformations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. (or such other nominee) do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC). DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, the Obligated Group Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

None of the Authority, the Obligated Group or the Trustee has any responsibility or obligation to any DTC Participant or any Beneficial Owner with respect to: (1) the accuracy of any records maintained by DTC or any Participant; (2) the payment by DTC or any Participant of any amount due to any Beneficial Owner in respect of the principal of or any premium or interest on the Bonds; (3) the delivery by DTC or any Participant to any Beneficial Owner of any notice (including a notice of redemption) or other communication which is required or permitted to be given to Bondholders under the Indenture; (4) the selection of the Beneficial Owners to receive payment in the event of a partial redemption of the Bonds; or (5) any consent given or other action taken by DTC as Bondholder.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not selected as provided in the Indenture, certificates for the Bonds are required to be printed and delivered.

The Obligated Group Agent, with the consent of the Authority and the Trustee, may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor Securities Depository). In that event, certificates for the Bonds will be printed and delivered to DTC.

The information contained in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, and none of the Authority, the Obligated Group, the Trustee or the Underwriters takes any responsibility for the accuracy thereof or for the accuracy of any information on the DTC website referenced herein.

Registration, Transfer and Exchange Provisions if Book-Entry System is Discontinued

The Beneficial Owners of the Bonds have no right to a Securities Depository for the Bonds. The following describes the provisions for registration, transfer and exchange of the Bonds if the book-entry system is discontinued.

The Trustee will maintain the Bond Register in which the registration of the related Bonds and the registration of transfers and exchanges of the related Bonds entitled to be transferred or exchanged will be recorded. The person in whose name a Bond is registered in the applicable Bond Register will be deemed the absolute owner thereof for all purposes.

Any registered owner of a Bond or its duly authorized attorney may transfer title to such registered owner's Bond in the applicable Bond Register upon surrender thereof at the corporate trust office of the Trustee, together with a written instrument of transfer (in substantially the form of assignment printed on the Bond or in such other form as shall be satisfactory to the Trustee) executed by the registered owner or its duly authorized attorney. The Bonds may be exchanged at the corporate trust office of the Trustee for a new Bond or Bonds of the same maturity and aggregate principal amount, but in different authorized denominations, as the Bonds being exchanged, upon surrender thereof at the corporate trust office of the Trustee. Upon surrender for transfer or exchange of any Bond, the Authority shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees or the registered owner thereof, as applicable, a new Bond or Bonds of the same maturity and aggregate principal amount as the Bond surrendered.

The Trustee may charge each holder of a Bond requesting a transfer or exchange any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee is not required to transfer or exchange any Bonds after notice of redemption of such Bond or portion thereof has been given as herein described.

SECURITY FOR THE BONDS

Limited Obligations of Authority

The Bonds will be special and limited revenue obligations of the Authority and, except to the extent payable from Bond proceeds or other moneys held under the Indenture or insurance and condemnation proceeds, will be payable solely and only from and secured by the payments to be made by the Corporation and LaPorte under the Loan Agreement or the 2006B Obligation (or by the other Members of the Obligated Group, if any).

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE

PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

The Master Indenture

Obligations. Under the Master Indenture, the Corporation, LaPorte or any future Member of the Obligated Group is authorized to incur pursuant to a supplement to the Master Indenture, for itself and on behalf of the other Members of the Obligated Group, Obligations to evidence or secure Indebtedness (or other obligations of a Member not constituting Indebtedness). The Corporation, as Obligated Group Agent, must approve the issuance of Additional Obligations. As of the Issue Date, the Corporation and LaPorte are the only Members of the Obligated Group, and as such are solely liable for payment of the Obligations issued under the Master Indenture. Certain affiliates of the Corporation have been designated by the Corporation pursuant to the terms of the Master Indenture as "Obligated Group Affiliates" under the Master Indenture. The Obligated Group Affiliates are not Members of the Obligated Group and are not liable for payment of the 2006B Obligation. See "THE OBLIGATED GROUP AND THE OBLIGATED GROUP AFFILIATES" herein and APPENDIX A hereto for a description of the Corporation, LaPorte and the Obligated Group Affiliates. The Corporation, LaPorte and any future Members of the Obligated Group will be jointly and severally liable with respect to the payment of each Obligation incurred under the Master Indenture.

The 2006B Obligation and the 2006B Swap Obligations are being issued by the Corporation under and pursuant to the Master Indenture on a parity with (i) the Prior Obligations, and (ii) any future Obligations to be issued and outstanding under the Master Indenture. See "PLAN OF FINANCE" herein. All Members of the Obligated Group are required to make payments on the 2006B Obligation in amounts sufficient to pay when due the principal of and premium, if any, and interest on the Bonds. For a more detailed discussion of entry into or withdrawal from the Obligated Group, see "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Entrance into the Obligated Group" and "—Cessation of Status as a Member of the Obligated Group" in APPENDIX C hereto All capitalized terms used and not defined in this section have the meanings listed in "DEFINITIONS OF CERTAIN TERMS" in APPENDIX C hereto.

The Master Indenture includes covenants that require the Corporation and LaPorte (as the sole Members of the Obligated Group) to maintain a minimum debt service coverage ratio and limit their ability to encumber certain of their respective assets. In determining whether the Corporation and LaPorte have satisfied such covenants, the Master Indenture requires the Corporation and LaPorte to include the income and assets of the Corporation and LaPorte and the Obligated Group Affiliates in calculating the related ratios and in testing for compliance even though the Obligated Group Affiliates are not obligated for the Obligations. The Master Indenture requires that each Obligated Group Affiliate be controlled by a Member of the Obligated Group (through corporate control or pursuant to contract), so as to assure compliance by the Obligated Group Affiliates with the covenants contained in the Master Indenture. The Corporation is currently the controlling member for all Obligated Group Affiliates. Management of the Corporation believes that the existing contractual relationships and corporate structure of the Corporation and the Obligated Group Affiliates allow the Corporation to exercise the necessary control over the Obligated Group Affiliates (including the ability of the Corporation to cause the Obligated Group Affiliates to transfer funds to the Corporation to make payments on Obligations) and ensure compliance with the Master Indenture covenants. While the Corporation has no current intention to allow such powers and policies to be modified in any material respect, the Master Indenture would not preclude those reserve powers or contractual relationships from being reduced or eliminated from time to time. In addition, no assurance can be given that the Corporation will, in all circumstances, be able to exercise such powers or to enforce such policies (including, without limitation, the ability of the Corporation to cause its Obligated Group Affiliates to transfer funds to make payments on the Obligations). See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Payment of Amounts Due Under any Obligation; Obligated Group Affiliates" in APPENDIX C hereto.

Entities may be designated Obligated Group Affiliates by an Obligated Group Member from time to time, and such designation may be rescinded by an Obligated Group Member from time to time. Although, as discussed above, the Master Indenture requires each Obligated Group Member to include the income and assets of their respective Obligated Group Affiliates in calculations required under the Master Indenture, the Master Indenture imposes no limitations on the ability of any Obligated Group Member to rescind the designation of any entity as an Obligated Group Affiliate.

Pledge of Gross Revenues. The Master Indenture provides for a pledge to the payment of Obligations of the revenues of the Members of the Obligated Group consisting of all Accounts, Bank Accounts, General Intangibles, Contract Rights and Related Rights (each as defined in APPENDIX C) of each Member, any moneys or securities held from time to time by the Master Trustee under the Master Indenture, any and all real or personal property from time to time conveyed or pledged by a Member of the Obligated Group to the Master Trustee as additional security under the Master Indenture, and all proceeds, cash proceeds, cash equivalents, products, replacements, additions, and improvements to, substitutions for and accessions of any and all such property. See "BONDHOLDERS' RISKS—Matters Relating to the Security for the Bonds."

Covenant Regarding Liens; Permitted Senior Indebtedness. Pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not create, incur or permit to be created or incurred, and will not allow its Obligated Group Affiliates to create, incur or permit to be created or incurred, the existence of any Lien upon its Property, other than Permitted Encumbrances. Permitted Encumbrances include Liens on Property of the Members of the Obligated Group and the Obligated Group Affiliates, including Liens which may be granted to secure Indebtedness, including Additional Obligations. Such Liens are not required to secure the 2006B Obligation, and the 2006B Obligation would be subordinated to such Indebtedness with respect to the Property secured by such Liens. The definitions of "Liens," "Permitted Encumbrances" and "Property" are set forth in APPENDIX C hereto. See also "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Liens on Property" in APPENDIX C hereto.

Restrictions as to Incurrence of Additional Indebtedness. Prior to the incurrence of any long-term Indebtedness, the Obligated Group Agent must deliver to the Master Trustee an Officer's Certificate certifying that (i) the Credit Group is in compliance with the provisions of the Master Indenture as of the date of incurrence of such long-term Indebtedness and (ii) the Indebtedness Ratio, taking into account all long-term Indebtedness which will be Outstanding upon the incurrence of the proposed long-term Indebtedness and the long-term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, does not exceed 0.65:1.00.

Restrictions as to Transfer of Assets. Each of Methodist Hospital, Indiana University Hospital and Riley Hospital (each as described and defined in APPENDIX A) shall not be sold, transferred or otherwise conveyed to any person who is not a Member.

Reserved Powers and Contractual Relationships. Although each Obligated Group Affiliate operates and has beneficial use of its property, through contractual relationships and/or reserved powers as set forth in the articles of incorporation and/or bylaws, the Corporation is of the opinion that it ultimately exercises sufficient control over the Obligated Group Affiliates to ensure covenant compliance, upstreaming and the use and disposition of their respective properties.

The articles of incorporation or the bylaws of Methodist Occupational Health Centers, Inc.; Methodist Medical Group, Inc.; Emergency Medical Group, Inc.; MH Healthcare, Inc.; and Methodist Medical Group Physicians, Inc. (collectively, the "Initial OGAs") reserve the following powers, among others, to the Corporation, as the sole corporate member of each of those Obligated Group Affiliates:

(a) approval of any amendment to the articles of incorporation or bylaws of each Initial OGA or any entity of which each Initial OGA is a sole or a controlling member or owns at least a majority of the outstanding stock (an "Affiliate");

(b) approval of any merger or consolidation of each Initial OGA or any of its Affiliates;

(c) approval of any sale, lease, exchange, conveyance, mortgage, pledge or other disposition of any substantial portion of the property, assets or interests of each Initial OGA or any of its Affiliates;

(d) approval of any incurrence of debt by each Initial OGA or any of its Affiliates, or the creation of any lien upon the property or revenues of the Initial OGA or any of its Affiliates, other than in the ordinary course of business;

(e) the power to direct the Board of Directors of each Initial OGA and of any of its Affiliates to transfer property of such entity in such amounts sufficient to pay the principal and interest on any obligation of the Corporation; and

(f) the power to direct the Board of Directors of each Initial OGA or of any of its Affiliates to take such actions as are required in order for each Initial OGA to comply with the covenants contained in any financing document to which the Corporation is a party or under which the Corporation is bound.

In April 2000, the Corporation entered into an Integration Definitive Agreement with GHS (the "Goshen Integration Agreement"), which is summarized in APPENDIX A under the caption "GOVERNANCE AND MANAGEMENT—Regional Hospitals—*Goshen Health System, Inc.*" The contractual relationships created in the Goshen Integration Agreement, together with the provisions contained in the articles of incorporation and bylaws of GHS and GHA, give the following powers, among others, to the Corporation:

(a) approval of any amendment to the articles of incorporation or bylaws of GHS or GHA;

(b) approval of any merger or consolidation of GHS or GHA;

(c) approval of sale or transfer of assets by GHS or GHA above a certain threshold level;

(d) approval of incurrence of debt by GHS or GHA above a certain threshold level and creation of liens by GHS or GHA in excess of certain stated limits;

(e) the power to direct the Board of Directors of GHS or GHA to transfer property of GHS or GHA to the Corporation in an amount sufficient to pay the principal and interest of any Obligation issued under the Master Indenture; and

(f) the power to direct the Board of Directors of GHS or GHA to take such actions as are required by GHS or GHA to comply with the covenants contained in any financing document under the Master Indenture to which the Corporation is a party or under which the Corporation is bound.

Participation Agreements

In connection with the issuance of certain of the Prior Obligations, the Corporation has entered into Participation Agreements with LaPorte, GHS and GHA (each, a "Participation Agreement") pursuant to which the Corporation makes loans to LaPorte, GHS and GHA from time to time. Each Participation Agreement provides that LaPorte, GHS or GHA, as the case may be, (i) deliver a promissory note to evidence its obligation to repay such loan; (ii) pay an interest rate based on the Corporation's all-in costs for the applicable category of indebtedness; (iii) repay the loan in monthly installments; (iv) maintain the tax-exempt status of the Bonds and use the tax-exempt bond financed property solely for exempt purposes; (v) maintain its 501(c)(3) status; (vi) maintain its licensure and JCAHO accreditation; and (vii) provide information to enable the Corporation to comply with its primary and secondary market disclosure obligations.

As an Obligated Group Member, LaPorte is jointly and severally liable under the Master Indenture. GHS and GHA have agreed, pursuant to the Participation Agreement and their bylaws, respectively, to upstream funds to repay all indebtedness under the Master Indenture. However, each Participation Agreement establishes a payment priority to equitably allocate payments due under the Master Indenture. Potential shortfalls arising from payment defaults under the Master Indenture will be allocated among participating system groups (each, a "Participating System Group") as provided in the appropriate Participation Agreement. LaPorte and LaPorte Regional Physician Network, Inc. are members of the LaPorte Participating System Group. GHS and GHA are the members of the Goshen Participating System Group. The Corporation and the Initial OGA's are members of the Clarian

Participating System Group. LaPorte and Goshen have each agreed not to transfer assets outside its respective Participating System Group in excess of the budgeted amounts in any fiscal year unless (i) with respect to the Goshen Participating System Group, such transfer would not be on a cumulative basis in any fiscal year together with encumbrances and sales of assets, in excess of 5% of the net book value of the Goshen Participating System Group or (ii) the Corporation consents to such transfer.

Any payment default for an entity within a Participating System Group would first be allocated to all entities within that particular Participating System Group. To the extent a Participating System Group does not meet payment requirements on the loans, the loss would then be allocated pro rata to the other Participating System Groups based on the respective principal amounts of the loans not in default.

The Corporation entered into an Integration Definitive Agreement with each of LaPorte and GHS in connection with integration of such entity into the Clarian Health System, which grants additional limited powers that would be triggered in the event of a payment default by LaPorte or GHS or GHA. For additional information regarding the terms of each Integration Definitive Agreement, see "GOVERNANCE AND MANAGEMENT—Regional Hospitals" in APPENDIX A hereto.

The 2006B Confirmations

The Obligated Group has entered into the 2006B Confirmations with the Swap Providers. The 2006B Confirmations provide that, subject to the terms thereof, the Swap Providers will pay to the Obligated Group a fixed rate and the Obligated Group will pay to the Swap Providers a floating rate based on the USD-BMA Municipal Swap Index, in each case based on a notional amount equal to the principal amount of the Bonds outstanding plus net original issue premium. The purpose of the 2006B Confirmations is generally to convert the Obligated Group's fixed rate obligations with respect to the Bonds to floating rate obligations. See "PLAN OF FINANCE."

The Obligated Group is obligated to make payments on the 2006B Obligation regardless of the performance of the Swap Providers of their obligations under the 2006B Confirmations. The Swap Providers have no obligation to make any payments with respect to the principal of and premium, if any, and interest on the 2006B Obligation or the Bonds and are only obligated to make certain payments to the Obligated Group pursuant to the terms of the 2006B Confirmations. The holders of the 2006B Obligation will not have any rights under the 2006B Confirmations or against the Swap Providers. Payments due to the Swap Providers under the 2006B Confirmations by the Obligated Group will be secured by the 2006B Swap Obligations.

See "BONDHOLDERS' RISKS—Interest Rate Swap Risk" for a discussion of certain risks associated with swap transactions.

The Indenture

Assignment by Authority to the Trustee. Pursuant to the Indenture, the Authority will assign to the Trustee, as security for the payment of the Bonds, the following:

(1) all rights and interest of the Authority under the Loan Agreement (except the Authority's rights to indemnification and payment of its expenses and certain expenses of collection in the event of default), including the right to receive payments from the Obligated Group under the Loan Agreement and the 2006B Obligation; and

(2) all moneys and securities on deposit from time to time in the funds established under the provisions of the Indenture, permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture (excluding moneys on deposit in the Rebate Fund).

Pursuant to the Loan Agreement and the Indenture, a Debt Service Reserve Fund will be funded by the Corporation in an amount equal to the Debt Service Reserve Requirement within 60 days of the occurrence of the following events: (i) Days Cash on Hand is less than 90 days on an Annual Evaluation Date; or (ii) the Historical Debt Service Coverage Ratio is less than 1.50 on any Annual Evaluation Date. The Trustee shall, immediately upon the receipt of an Officer's Certificate of the Obligated Group Agent, instruct the Trustee to release the Debt Service Reserve Fund if, for two consecutive Fiscal Years after such funding: (i) on each Annual Evaluation Date in such Fiscal Years, Days Cash on Hand is not less than 90; and (ii) on the Annual Evaluation Date for each of such Fiscal Years, the Historical Debt Service Coverage Ratio is not less than 1.50. The Corporation may fund all or a portion of the Debt Service Reserve Requirement by depositing one or more Reserve Fund Credit Instruments in the Debt Service Reserve Fund.

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FORECASTED DEBT SERVICE REQUIREMENTS

The following table sets forth for each fiscal year ending December 31 the amounts required to be made available for the payment of principal due on the Bonds, at maturity or by mandatory sinking fund redemption, and for the payment of interest on the Bonds. The table also includes the forecasted debt service commencing with the fiscal year ending December 31, 2007 on the Prior Bonds (excluding the Refunded Bonds) that remain outstanding. Actual results may vary.

Total Debt Service

		Series 2006B Bonds			
Fiscal Year Ending	Existing Debt Service[1,2,3,4,5,6,7,8,9]	Principal	Interest	Debt Service	Total Debt Service[10]
12/31/2007	$ 65,444,543	$ 5,525,000	$ 17,096,172	$ 22,621,172	$ 88,065,715
12/31/2008	65,122,617	4,585,000	18,353,375	22,938,375	88,060,992
12/31/2009	66,296,172	3,620,000	18,148,250	21,768,250	88,064,422
12/31/2010	65,043,355	5,090,000	17,930,500	23,020,500	88,063,855
12/31/2011	65,203,474	5,185,000	17,673,625	22,858,625	88,062,099
12/31/2012	65,288,702	5,365,000	17,409,875	22,774,875	88,063,577
12/31/2013	65,148,726	5,785,000	17,131,125	22,916,125	88,064,851
12/31/2014	65,391,055	5,830,000	16,840,750	22,670,750	88,061,805
12/31/2015	65,128,462	6,400,000	16,535,000	22,935,000	88,063,462
12/31/2016	65,359,417	6,490,000	16,212,750	22,702,750	88,062,167
12/31/2017	65,118,449	7,070,000	15,873,750	22,943,750	88,062,199
12/31/2018	65,125,132	7,425,000	15,511,375	22,936,375	88,061,507
12/31/2019	65,331,903	7,595,000	15,135,875	22,730,875	88,062,778
12/31/2020	65,237,143	8,080,000	14,744,000	22,824,000	88,061,143
12/31/2021	56,134,630	17,830,000	14,096,250	31,926,250	88,060,880
12/31/2022	49,573,638	25,475,000	13,013,625	38,488,625	88,062,263
12/31/2023	49,634,885	26,720,000	11,708,750	38,428,750	88,063,635
12/31/2024	49,468,261	28,260,000	10,334,250	38,594,250	88,062,511
12/31/2025	49,635,630	29,540,000	8,889,250	38,429,250	88,064,880
12/31/2026	49,587,955	31,100,000	7,373,250	38,473,250	88,061,205
12/31/2027	72,041,500	9,670,000	6,354,000	16,024,000	88,065,500
12/31/2028	72,108,972	10,095,000	5,859,875	15,954,875	88,063,847
12/31/2029	72,007,078	10,715,000	5,339,625	16,054,625	88,061,703
12/31/2030	63,641,176	19,845,000	4,575,625	24,420,625	88,061,801
12/31/2031	47,337,082	37,570,000	3,155,250	40,725,250	88,062,332
12/31/2032	47,515,334	39,300,000	1,248,500	40,548,500	88,063,834
12/31/2033	47,501,734	5,320,000	133,000	5,453,000	52,954,734
12/31/2034	52,951,963	-	-	-	52,951,963
12/31/2035	52,950,988	-	-	-	52,950,988
12/31/2036	52,952,988	-	-	-	52,952,988
12/31/2037	52,949,488	-	-	-	52,949,488
12/31/2038	52,950,113	-	-	-	52,950,113
12/31/2039	52,949,113	-	-	-	52,949,113
12/31/2040	52,949,369	-	-	-	52,949,369
TOTAL[10]	**$ 2,011,081,047**	**$ 375,485,000**	**$ 326,677,672**	**$ 702,162,672**	**$ 2,713,243,719**

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1 Does not include the principal of or interest on the Refunded Bonds payable on or before the Redemption Date of December 12, 2006. Although the Refunded Bonds will not be defeased on the date of issuance of the Bonds and will remain outstanding until the Redemption Date, the principal of and interest on the Refunded Bonds is expected to be funded from the proceeds of the Bonds deposited to the Refunding Fund, together with interest earned thereon. See “PLAN OF FINANCE.”

2 Assumes interest on the Series 2003A, Series 2003B, Series 2003C and Series 2003D Bonds at the synthetic fixed swap rates of 2.57%, 3.22%, 2.59% and 3.225% per annum, plus 0.26% Broker Dealer/Auction Fees (on a 30/360 basis), respectively.

3 Assumes interest on the Series 2003E, Series 2003F and Series 2003G Bonds at the synthetic fixed swap rate of 4.924% per annum, plus 0.26% Broker Dealer/Auction Fees (on a 30/360 basis).

4 Assumes interest on the Series 2005A and Series 2005B Bonds at the synthetic fixed swap rate of 3.19% per annum (on a 30/360 basis), plus 0.253% Broker Dealer/Auction Fees (on an actual/360 basis).

5 Assumes interest on the Series 2005C and Series 2005D Bonds at the synthetic fixed swap rate of 3.35% per annum (on a 30/360 basis), plus 0.253% Broker Dealer/Auction Fees (on an actual/360 basis).

6 The actual rate paid may change based upon market conditions.

7 Assumes floating rates received from the swap providers equal floating rates paid on the bonds. Actual results may vary. See “BONDHOLDERS’ RISKS—Interest Rate Swap Risk.”

8 Auction Agent/Broker Dealer, remarketing and liquidity fees are estimates and are subject to change over the life of the transaction, which may impact total debt service cost.

9 The assumed rates of interest used in this table are not calculated in accordance with the method prescribed for calculating debt service to determine compliance with various financial tests under the Master Indenture.

10 Totals may vary due to rounding.

PLAN OF FINANCE

Refunding of the Refunded Bonds

In order to provide for the current refunding of the Refunded Bonds, the Corporation will deposit a portion of the proceeds of the Bonds into the Refunding Fund under the Indenture. The Refunding Fund is dedicated to redeem the Refunded Bonds on December 12, 2006 (the "Redemption Date"). Funds deposited to the Refunding Fund will be invested pursuant to a guaranteed investment contract (the "Investment Agreement") with Citigroup Financial Products Inc. (the "GIC Provider"). The GIC Provider's long-term debt is currently rated "AA+" by Fitch, "Aa1" by Moody's and "AA-" by Standard & Poor's. Citigroup Inc. is the guarantor of the GIC Provider with respect to the Investment Agreement. Reports, proxy statements and other information filed by Citigroup Inc. with the Securities and Exchange Commission (the "SEC") pursuant to the informational requirements of the Securities Exchange Act of 1934, as amended, can be inspected and copied at the public reference facility maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the various regional offices of the SEC. The Investment Agreement will bear interest at a variable rate, reset on a weekly basis, plus 1.6225%. The deposit to the Refunding Fund, together with a portion of the interest earned thereon, is expected to be sufficient to pay the principal due on the Refunded Bonds on the Redemption Date. The Obligated Group will continue to pay interest, liquidity fees and remarketing fees on the Refunded Bonds through the Redemption Date and will use a portion of the interest earnings on the Refunding Fund to fund a portion of such interest. Prior to the Redemption Date, both the Refunded Bonds and the Bonds will be outstanding. On the Redemption Date, the Refunded Bonds will be redeemed and will no longer be outstanding.

Interest Rate Swap Agreements

In connection with the issuance of the Bonds, the Obligated Group entered into the 2006B Confirmations. The obligations of the Obligated Group to the Swap Providers will be secured by the 2006B Swap Obligations.

The 2006B Confirmations are written in a combined notional amount equal to the principal amount of the Bonds plus net original issue premium and will decline to match the annual principal payment schedule (including through mandatory sinking fund redemption) of the Bonds, plus net original issue premium. The 2006B Confirmations require the Obligated Group to pay the Swap Providers monthly a floating amount on such notional amount for the preceding monthly period at a floating rate calculated on the basis of the USD-BMA Municipal Swap Index; and the Swap Providers are required to pay to the Obligated Group semiannually on each February 15 and August 15 a fixed rate of 4.23% per annum on such notional amount for the preceding semiannual period.

The Master Agreements and the 2006B Confirmations do not affect or alter any of the obligations of the Obligated Group with respect to the payment of principal of or interest on the Bonds or the 2006B Obligation, and neither the owners of the Bonds nor any person other than the Obligated Group will have any rights under the Master Agreements or the 2006B Confirmations or against the Swap Providers.

For a discussion of certain of the risks associated with the interest rate swap agreements, see "BONDHOLDERS' RISKS—Interest Rate Swap Risk."

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds.

Sources:	**Amount**
Par Amount of Bonds	$ 375,485,000.00
Net Original Issue Premium	11,624,759.65
Total Sources	$ 387,109,759.65
Uses:	
Deposit to Refunding Fund	$ 384,823,740.79
Costs of Issuance[1]	2,286,018.86
Total Uses	$ 387,109,759.65

[1] Includes legal, printing, underwriting discount and other miscellaneous costs of issuance.

BONDHOLDERS' RISKS

The following is a discussion of certain risks that could affect payments to be made with respect to the Bonds. Such discussion is not exhaustive, should be read in conjunction with all other parts of this Official Statement, and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement. See "INTRODUCTION—Availability of Documents."

General

The Bonds will be payable by the Authority solely from amounts payable under the Loan Agreement and the 2006B Obligation issued to the Trustee. See "SECURITY FOR THE BONDS." The ability of the Members of the Obligated Group to realize revenues in amounts sufficient to pay debt service on the Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that revenues will be realized by the Obligated Group in amounts sufficient to pay debt service when due on the Bonds and the Obligations of the Obligated Group. None of the provisions of the Indenture, the Loan Agreement or the Master Indenture provide any assurance that the Obligations of the Obligated Group will be paid as and when due if the Obligated Group becomes unable to pay its debts as they come due or the Obligated Group otherwise becomes insolvent.

The receipt of future revenues by the Members of the Obligated Group and any Obligated Group Affiliate is subject to, among other factors, federal and state laws, regulations and policies affecting the health care industry and the policies and practices of major managed care providers, private insurers and other third-party payors and private purchasers of health care services. The effect on the Members of the Obligated Group of recently enacted laws and regulations and recently adopted policies, and of future changes in federal and state laws, regulations and policies, and private policies, cannot be determined at this time. Loss of established managed care contracts of a Member of the Obligated Group could also adversely affect its future revenues.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions, including demand for health care services, the availability and affordability of insurance, including without limitation, malpractice and casualty insurance, availability of nursing and other professional personnel, the capability of management of each Member of the Obligated Group, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Members of the Obligated Group, economic and demographic developments in the United States, the State of Indiana and the service areas of the Members of the Obligated Group, and competition from other health care institutions in the service areas, together with changes in rates, costs, third-party payments and governmental laws, regulations and policies, may adversely affect revenues and expenses and, consequently, the ability of the Obligated Group to make payments under the Obligations.

Additional Debt

Except as described above under the subheading "SECURITY FOR THE BONDS—The Master Indenture—*Restrictions as to Incurrence of Additional Indebtedness*," the Master Indenture does not limit the issuance of additional Obligations on a parity with the 2006B Obligation and the other outstanding Obligations or the incurrence of additional indebtedness by the Members of the Obligated Group and any Obligated Group Affiliate. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Authorization, Amount and Designation of Obligations" in APPENDIX C hereto. The Members of the Obligated Group have previously issued Obligations, all of which are secured by the Master Indenture on a parity with the 2006B Obligation. See "SECURITY FOR THE BONDS—The Master Indenture—*Obligations*" above.

Federal Laws and Regulations

Medicare and Medicaid Programs; General

Medicare and Medicaid are the commonly used names for hospital reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is jointly funded by federal and state government. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older or disabled, or qualify for the End Stage Renal Disease Program. Medicaid is designed to pay providers for care given to the medically indigent, is funded by federal and state appropriations, and is administered by the individual states. Hospital benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain minimum income or other eligibility requirements including children, the aged, the blind and/or the disabled.

Health care providers have been and will be affected significantly by changes in the last several years in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, and have caused severe reductions in reimbursement from the Medicare program. Specifically, the Balanced Budget Act of 1997 (the "BBA") which was signed into law on August 5, 1997, was intended to decrease significantly reimbursement or payment to health care providers. Congress has also affected reimbursement levels to providers in the Medicare and Medicaid and State Children's Health Insurance Program Balanced Budget Refinement Act of 1999 ("BBRA") and the Benefits Improvement and Protection Act of 2000 ("BIPA"). The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "2003 Act") was signed into law on December 8, 2003. The 2003 Act, among other things described below, generally increased reimbursement levels. Most recently, the Deficit Reduction Act of 2005 was signed into law on February 8, 2006, which, among other things, is expected to reduce federal entitlements through 2015, impacting both Medicare and Medicaid. The following is a summary of the Medicare and Medicaid programs and certain risk factors related thereto.

Medicare

General

Approximately 32.3% of the gross patient service revenues of the Clarian Health System for the fiscal year ended December 31, 2005 were derived from Medicare. Medicare pays acute care hospitals for most services provided to inpatients under a payment system known as the "Prospective Payment System" or "PPS" pursuant to which hospitals are paid for services based on predetermined rates. Separate PPS payments are made for inpatient operating costs and inpatient capital costs. Such payments are not based upon a hospital's actual costs of providing service.

Inpatient Operating Costs

Acute care hospitals that participate in Medicare are paid on the basis of PPS, on a per-discharge basis at fixed rates based on the Diagnosis Related Group ("DRG") to which each Medicare patient is assigned. The DRG is determined by the diagnoses, procedures and other factors for each particular Medicare inpatient stay. The amount to be paid for each DRG is established prospectively by the Centers for Medicare and Medicaid Services ("CMS") (formerly, The Health Care Financing Administration), an agency of the United States Department of Health and Human Services ("HHS"), and is not, with certain exceptions, related to a hospital's actual costs or variations in service or length of stay.

The BBA also has affected DRG reimbursement by reducing it to, in effect, a per diem rate for a select group of DRGs when the patient is transferred to almost any post acute care setting prior to the geometric mean length of stay for the appropriate DRG. Affected by this rule are transfers to post acute care settings such as rehabilitation, skilled nursing facilities, psychiatric services and home health. This rule, which now applies to 30 DRGs (as opposed to 10, the number of DRGs affected prior to October 1, 2003), could adversely affect the Medicare reimbursement of the Members of the Obligated Group because hospitals transferring patients who are classified under one of the designated DRGs to a post-acute setting prior to the geometric mean length of stay for that DRG will receive less than the full DRG rate for those patients.

For certain Medicare beneficiaries who have unusually long or costly hospital stays ("outliers"), CMS will provide additional payments above those specified for the DRG. To determine whether a case qualifies for outlier payments, hospital-specific cost-to-charge ratios are applied to the total covered charges for the case. Operating and capital costs for the case are calculated separately by applying separate operating and capital cost-to-charge ratios and combining these costs to compare them with a defined fixed-loss outlier threshold for the specific DRG.

On June 9, 2003, CMS promulgated a final regulation revising how Medicare outlier payments for inpatient services are calculated. The regulation closed certain loopholes through which some hospitals manipulated their cost-to-charge ratios in order to increase their Medicare outlier payments. Hospitals receiving a large proportion of their Medicare revenues as outlier payments have an increased likelihood of triggering a review by CMS, not only of their outlier payments, but also of all of their billing practices. As part of its 2005 Work Plan, the HHS Office of Inspector General continued to evaluate whether claims for outlier payments are submitted in accordance with Medicare law and regulations. Although the Members of the Obligated Group believe that their cost-to-charge ratios were not manipulated in order to increase Medicare outlier payments, any such investigation or suit involving the outlier payments of the Members of the Obligated Group could have a material adverse impact on the financial condition and the results of operations of the Members of the Obligated Group.

While PPS payments are adjusted annually using an inflation index, based on the change in a "market basket" of hospital costs of providing health care services, there is no assurance that future updates in the PPS payments will keep pace with the increases in the cost of providing hospital services. If a hospital incurs costs in treating Medicare inpatients which exceed the DRG level of reimbursement plus any outlier payments, the hospital will experience a loss from such services. Other third-party payers have begun implementing their own limitations on reimbursement payable to hospitals to avoid "cost-shifting," that is, the practice of offsetting losses from Medicare patients by increasing charges to other payors.

Inpatient Capital Costs

Medicare payments for inpatient capital costs (e.g., depreciation, interest, taxes and similar expenses for plant and equipment), are based upon a PPS system similar to the inpatient operating cost PPS. A separate per-case standardized amount is paid for capital costs, adjusted to take into account certain hospital characteristics and weighted by DRG. Such capital costs are reimbursed exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to certain adjustments specific to the hospital.

There can be no assurance that the prospective payment for capital costs will be sufficient to cover the actual capital-related costs of the Members of the Obligated Group allocable to Medicare patient stays or to provide adequate flexibility in meeting the future capital needs of the Members of the Obligated Group.

Skilled Nursing Facility Services

Medicare covers nursing services furnished by or under the supervision of a registered professional nurse, as well as physical, occupational, and speech therapy provided by skilled nursing facilities ("SNFs") that are certified for participation in the Medicare program. Medicare coverage of SNF services is available only if the patient is hospitalized for at least three consecutive days, the need for SNF services is related to the reason for the hospitalization, and the patient is admitted to the SNF within 30 days following discharge from a Medicare participating hospital. Medicare coverage of SNF services is limited to 100 days per benefit period after discharge from a Medicare participating hospital or critical access hospital. The patient must pay coinsurance amounts for the twenty-first and each of the remaining days of covered care per benefit period.

Medicare payments for SNF services are paid on a case-mix adjusted per diem PPS for all routine, ancillary and capital related costs. The prospective payment for SNF services is based solely on the adjusted federal per diem rate. A proposed CMS regulation sets forth a schedule of prospective payment rates applicable to Medicare Part A SNF services for federal fiscal year 2007 and will reflect a decrease from the payment rates applicable for federal fiscal year 2006. There can be no assurance that the SNF PPS rates will be sufficient to cover the actual costs of providing SNF services.

SNFs are also required to perform consolidated billing for items and services furnished to patients during a Part A covered stay and therapy services furnished during Part A and Part B covered stays. The consolidated billing requirement essentially confers on the SNF itself the Medicare billing responsibility for the entire package of care that its residents receive in these situations. The BBA also affected SNF payments by requiring that post-hospitalization SNF services be "bundled" into the hospital's DRG payment in certain circumstances. Where this rule applies, the hospital and the SNF must, in effect, divide the payment which otherwise would have been paid to the hospital alone for the patient's treatment, and no additional funds are paid by Medicare for SNF care of the patient. At present this provision applies to a limited number of DRGs, but already is apparently having a negative effect on SNF utilization and payments, either because hospitals are finding it difficult to place patients in SNFs which will not be paid as before or because hospitals are reluctant to discharge the patients to SNFs and lose part of their payment. It is possible that the bundling requirement could be extended to more DRGs in the future, increasing the negative impact on SNF utilization and payments.

There is no guarantee that SNF prospective payment rates, as they may change from time to time, will cover the actual costs of the Members of the Obligated Group for providing skilled nursing services to Medicare patients. In addition, there is no assurance that the Members of the Obligated Group will be fully reimbursed for all services for which each bills through consolidated billing.

Costs of Medical Education

Medicare pays for costs associated with both direct and indirect medical education (including the salaries of residents and teachers and other overhead costs directly attributable to approved medical education programs for training residents, nurses and allied health professionals). Payment for direct medical education ("DME") reimburses hospitals for the direct costs of their medical education programs, including faculty and resident salaries and other costs incurred directly in support of the teaching programs. However, prior legislation capped the number of residents for which DME reimbursement would be available to the number of residents that were included in the hospital's cost report ending December 31, 1996. Different rules apply to new residency programs, but the DME amounts payable for new programs are also limited based on certain other factors. Further, there is a debate over whether the training of residents at off-site facilities will impact the payment made to hospitals. The Members of the Obligated Group may be negatively impacted if payment for such off-site training of residents is decreased. There can be no assurance that payments to the Members of the Obligated Group for providing medical education will be adequate to cover the costs attributable to medical education programs.

Home Health Reimbursement

As of October 1, 2000, Medicare began paying all home health agencies for services delivered to home-bound Medicare beneficiaries on the basis of a home health prospective payment system. Home health providers are paid a predetermined base payment, adjusted to the health condition of the beneficiary. Medicare will also provide outlier payments in addition to the case-mix adjusted payment for cases involving an unusually high level of services in a 60-day period. In federal fiscal year 2005, the aggregate amount payable to home health agencies increased by 2.3%. There can be no assurance that the prospective payment amounts for home health services provided by the Members of the Obligated Group will be sufficient to cover the actual costs of providing such services.

Inpatient Psychiatric and Rehabilitation

Prior to April 1, 2001, rehabilitation, psychiatric, long term care, children's and cancer hospitals and distinct inpatient rehabilitation and psychiatric units of hospitals were exempt from the PPS. As a result, providers of these services were paid on the basis of the cost of, or a portion of the cost of, providing such service. As of January 1, 2002, all inpatient services furnished by a hospital enrolled in the Medicare program as a rehabilitation hospital or by a rehabilitation unit of a hospital are reimbursed by Medicare on a prospective payment system specifically established for such hospitals and units. PPS for inpatient psychiatric services was scheduled to be implemented for cost reporting periods beginning after October 1, 2002. A final rule replacing the reasonable cost-based system then in effect was promulgated on November 15, 2004 and took effect on January 1, 2005. The new rule provides for a three-year phase-in period. According to CMS, the new rule affects about 2,000 inpatient psychiatric hospitals and certified psychiatric units in general acute care hospitals. Methodist Hospital, LaPorte Hospital and Goshen General Hospital (as described in APPENDIX A hereto) have psychiatric and/or rehabilitation units. While the effect of these changes on the Members of the Obligated Group cannot be predicted at this time, proposed new prospective payment systems could have a material adverse effect on the financial condition or results of operations of the Members of the Obligated Group if their costs for providing such services exceed the reimbursement paid under the respective prospective payment systems.

Cost of Outpatient Services

The BBA provided authority for CMS to implement PPS for hospital outpatient services, certain Part B services furnished to hospital inpatients who have no Part A coverage, and partial hospitalization services furnished by community mental health centers ("Outpatient PPS"). All services paid under the new Outpatient PPS are classified into groups called Ambulatory Payment Classifications or "APCs." Services in each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC which is based on national median hospital costs (including operating and capital costs) adjusted for variations in hospital labor costs across geographic areas. Depending on the services provided, hospitals may be paid for more than one APC for an encounter. There can be no assurance that payments under Outpatient PPS will be sufficient to cover the actual costs of providing such services.

Physician Payments

Reimbursement for certain physician services is based on a Medicare fee schedule based on a "resource-based relative value scale" ("RBRVS"). The RBRVS fee schedule establishes payment amounts for all physician services, including services provided by hospital employed physicians (other than anesthesiologists) and is subject to annual updates. There can be no assurance that the payments for physician services will be sufficient to cover the actual costs of providing such services.

Hospice and Outpatient Renal Dialysis Reimbursement

Hospice services are reimbursed on a cost-based prospective payment method, subject to a "cap" amount. CMS establishes daily payment amounts, which are adjusted to reflect local differences in wages. Under the BBA and BBRA, the amounts paid to the hospice program are less than the market basket increase for the fiscal year involved.

Renal dialysis services are reimbursed on the basis of prospective reimbursement, though different rates are paid for hospital-based and free-standing facilities, and are adjusted for geographic differences in labor costs. This composite rate is the same regardless of whether the treatment is furnished in the facility or in the patient's home to incentivize home dialysis, and must be accepted by the facility as payment in full for covered outpatient dialysis.

There can be no assurance that the prospective payment amounts for hospice or renal dialysis services provided by the Members of the Obligated Group will be sufficient to cover the actual costs of providing such services.

Provider-Based Designation

CMS regulations describe the criteria and procedures for determining whether a facility or organization is "provider-based" and thereby treated as part of another Medicare provider, rather than as a freestanding entity. The current regulations impose significantly greater requirements for obtaining provider-based status than was the case under previous regulations, and may lead to reclassification of facilities or departments of the Members of the Obligated Group currently classified as "provider-based." Proposed CMS regulations would add "rural health clinics" to the list of facilities for which provider-based status is not available. Reclassification of any of the provider-based facilities or departments of the Members of the Obligated Group could reduce reimbursement under the Medicare program. In addition, in the event that a facility or department that bills for outpatient services as a provider-based entity is found to be out of compliance with the current provider-based regulations, the Members of the Obligated Group could be liable for Medicare overpayments.

Medicare Conditions of Participation

Hospitals must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under the Medicare rules, hospitals accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") are deemed to meet the Conditions of Participation. However, CMS may request that the state agency responsible for approving hospitals on behalf of CMS, conduct a "sample validation survey" of a hospital to determine whether it is complying with the Conditions of Participation. Failure to maintain JCAHO accreditation or other noncompliance with the Conditions of Participation could have a material adverse effect on the continued participation in the Medicare and Medicaid programs, and ultimately, the financial condition and results of operations of the Members of the Obligated Group.

Medicare Audits and Withholds

Hospitals participating in Medicare and Medicaid are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under those programs. Although management of the Corporation believes recorded valuation allowances are adequate for the purpose, any such future adjustments could be material. Both Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. Any such withholding with respect to any Member of the Obligated Group could have a material adverse effect on the financial condition and results of operations of the Members of the Obligated Group. In addition, contracts between hospitals and third-party payers often have contractual audit, setoff and withhold language that may cause substantial, retroactive adjustments. Such contractual adjustments also could have a material adverse effect on the financial condition and results of operations of the Members of the Obligated Group. Management of the Corporation is not aware of any situation in which a Medicare or other payment is being, or may in the future be, withheld that would materially and adversely affect the financial condition or results of operations of the Members of the Obligated Group.

Under both Medicare and Medicaid programs, certain health care providers, including hospitals, are required to report certain financial information on a periodic basis, and with respect to certain types of classifications of information, penalties are imposed for inaccurate reports. As these requirements are numerous, technical and complex, there can be no assurance that the Members of the Obligated Group will avoid incurring such penalties in the future. These penalties may be material and adverse and could include criminal or civil liability for making false claims and/or exclusion from participation in the federal healthcare programs. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal

False Claims Act or other federal statutes, subjecting the provider to civil, administrative, or criminal sanctions. The United States Department of Justice has initiated a number of national investigations, including in the State of Indiana, involving proceedings under the federal False Claims Act relating to alleged improper billing practices by hospitals. These actions have resulted in substantial settlement amounts being paid in certain cases.

Management of the Members of the Obligated Group does not anticipate that Medicare audits or cost report settlements for the Medicare program will materially adversely affect the financial condition or results of operations of the Members of the Obligated Group, taken as a whole, nor does it believe that any Member of the Obligated Group has improperly submitted claims; however, in light of the complexity of the regulations relating to the Medicare program, and the threat of ongoing investigations as described above, there can be no assurance that significant difficulties will not develop in the future.

Medicare Advantage

Medicare Advantage plans (formerly known as Medicare+Choice Plans prior to the 2003 Act) are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require. In recent years, many private managed care companies discontinued their Medicare+Choice plans. The result has been that the beneficiaries who were covered by the now-discontinued Medicare+Choice have been shifted back into the Medicare fee-for-service program or into a Medicare cost plan.

Future legislation or regulations may be created, to encourage increased participation in the Medicare Advantage program. The effect of such future legislation/regulation is unknown but could materially and adversely affect the Obligated Group.

Medicaid

Medicaid is the joint federal/state program, created under the Social Security Act, by which hospitals receive reimbursement for services provided to eligible infants, children, adolescents and indigent adults. Approximately 17.1% of the gross patient service revenues of the Clarian Health System for the fiscal year ended December 31, 2005 were derived from Medicaid.

Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints.

Indiana Medicaid Program

Since a portion of the Medicaid program's costs in Indiana are paid by the State, the absolute level of Medicaid revenues paid to the Clarian Health System, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. The actions the State could take to reduce Medicaid expenditures to accommodate any budgetary shortfalls include, but are not limited to, changes in the method of payment to hospitals, changes in eligibility requirements for Medicaid recipients and delays of payments due to hospitals. Any such action taken by the State could have a material adverse effect upon the Clarian Health System's operations and financial results.

Since November 4, 1994, the Indiana Medicaid program has made payments to hospitals using a DRG system that bases payments on patient discharges. Previously, the Indiana Medicaid program reimbursed hospitals for inpatient services on the basis of the hospital's reasonable costs, as determined under Medicare cost reimbursement principles, and limited such reimbursement by allowing increases in the per discharge target rates based upon certain fiscal year inflationary adjustment percentages.

Effective March 1, 1994, the Indiana Medicaid Program adopted a rule establishing an outpatient payment system that reimburses hospitals based upon established fee schedule allowances and rates for surgery groups. Previously, outpatient reimbursement was made on a prospective reimbursement methodology providing a predetermined percentage based upon an aggregate "cost-to-charge" ratio, with no year-end costs settlement. Consequently, no assurance can be given that Medicaid payments received or to be received by the Clarian Health System will be sufficient to cover costs for inpatient and outpatient services, debt service obligations or other expenses otherwise eligible for reimbursement.

Like most states, Indiana has implemented managed care programs to serve the Medicaid population as a cost saving strategy for the State. Initiatives currently in place are intended to expand participation in the State sponsored managed care programs. Increased participation may impact hospital reimbursements through the Medicaid programs.

Disproportionate Share Payments

The federal Medicaid law permits states to include a "disproportionate share" adjustment in payments to hospitals in order to compensate those hospitals that serve a disproportionate share of indigent patients. Approximately 4.3% of the gross patient revenues of the Clarian Health System for the fiscal year ended December 31, 2005 are represented by gross disproportionate share payments. There is no guarantee that, in the future, the Clarian Health System will continue to receive distributions at this level.

Federal Regulatory and Contractual Matters

Recent Legislation

The 2003 Act, in addition to adding outpatient prescription drug coverage, makes significant changes to the Medicare program affecting hospitals, and provides certain economic benefits to hospitals over the next 10 years. Among other things, the 2003 Act's hospital-related provisions (i) increase payments to rural providers; (ii) ensure that inpatient PPS payment updates remain at the full market basket, provided hospitals participate in a voluntary CMS-sponsored hospital reporting initiative; (iii) impose an 18-month moratorium on the Stark Law "whole hospital" exception for physician owners of designated "specialty" hospitals (discussed below); (iv) increase home health payments; (v) establish a competitive acquisition program for durable medical equipment beginning in 2007; and (vi) freeze payment rates for durable medical equipment for the three federal fiscal years from September 30, 2004 through September 30, 2006.

While it is believed that the 2003 Act will provide a measure of financial relief to hospitals, it is impossible to predict the effect that the 2003 Act will have on Members of the Obligated Group, especially given the 2003 Act's length, complexity and long phase-in period, as well as the potential for future amendment and alteration of the benefits provided by the 2003 Act.

In addition, the current trend of federal Medicare legislation and regulation favors the replacement of cost-based, provider-specific reimbursement with prospectively determined national payment rates. The net effect of this trend could be lower revenues that would have a material adverse effect on the future financial condition and results of operations of the Members of the Obligated Group.

On February 8, 2006, the President signed the Deficit Reduction Act of 2005 ("DRA"). The DRA is expected to generate $39 billion in federal entitlement reductions over the 2006 to 2010 period and $99 billion over the 2006 to 2015 period. The DRA includes net reductions of $4.8 billion over the next five (5) years and $26.1 billion over the next ten (10) years to Medicaid. Many of the policy changes in the DRA would shift costs to beneficiaries and have the effect of limiting health care coverage and access to services for low-income beneficiaries. The Medicaid reductions in direct spending include the following five major categories: prescription drugs; asset transfer changes for long-term care eligibility; fraud, waste and abuse; cost-sharing and benefit flexibility; and state financing. The DRA also contains provisions involving quality reporting and a reduction in Medicare payments to hospitals that do not report quality-related data, and adjustments and payment methodology for imaging services, ambulatory surgical center services, physician services and therapy services. The DRA also contains provisions encouraging states to enact false claims acts. Under the DRA, if a state has in effect a law relating to false or fraudulent claims that meet the requirements of the DRA, the Federal medical assistance percentage with respect to any amounts recovered under a state action brought under such state false claims law shall be decreased by ten (10) percentage points, thereby entitling the state to retain more of the amounts recovered. This provision may increase state investigations related to Medicaid fraud and abuse.

Anti-Fraud and Abuse Laws

The federal Anti-Kickback statute (the "Anti-Kickback Law") makes it a felony to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, in order to induce business that is reimbursable under any federal health care program. The statute has been interpreted to cover any arrangement where one purpose of the remuneration was to obtain or pay money for the referral of services or to induce further referrals. Violation of the Anti-Kickback Law may result in imprisonment for up to five years and/or fines of up to $25,000 for each act. In addition, the Office of Inspector General ("OIG") of HHS has the authority to impose civil assessments and fines and to exclude hospitals engaged in prohibited activities from the Medicare, Medicaid, TRICARE (a health care program providing benefits to dependents of members of the uniformed services), and other federal health care programs for not less than five years. In addition to certain statutory exceptions to the Anti-Kickback Law, the OIG has promulgated a number of regulatory "safe harbors" under the Anti-Kickback Law designed to protect certain payment and business practices. A party may seek an advisory opinion to determine whether an actual or proposed arrangement meets a particular safe harbor; however the failure of a party to seek an advisory opinion may not be introduced into evidence to prove that the party intended to violate the provisions of the statute. Failure to comply with a statutory exception or regulatory safe harbor does not mean that an arrangement is unlawful but may increase the likelihood of challenge.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") created a new program operated jointly by HHS and the United States Attorney General to coordinate federal, state and local law enforcement with respect to fraud and abuse including the Anti-Kickback Law. HIPAA also provides for minimum periods of exclusion from a federal health care program for fraud related to federal health care programs, provides for intermediate sanctions and expands the scope of civil monetary penalties. The BBA expanded the authority of OIG to exclude persons from federal health care programs, increased certain civil and monetary penalties for violations of the Anti-Kickback Law and added a new monetary penalty for persons who contract with a provider that the person knows or should know is excluded from the federal health care programs. Finally, actions which violate the Anti-Kickback Law or similar laws may also involve liability under the federal civil False Claims Act which prohibits the knowing presentation of a false, fictitious or fraudulent claim for payment to the United States. Actions under the civil False Claims Act may be brought by the United States Attorney General or as a qui tam action brought by a private individual in the name of the government.

Pursuant to the mandates of HIPAA, increased emphasis is being placed on federal investigations and prosecutions of Medicare and Medicaid "fraud and abuse" cases, and increases in personnel investigations and prosecuting such cases have been reported, which will most likely result in a higher level of scrutiny of hospitals and health care providers, including Members of the Obligated Group.

The management of the Members of the Obligated Group believes that the Members of the Obligated Group are in compliance with the Anti-Kickback Law. However, because of the breadth of those laws and the narrowness of the safe harbor regulations, there can be no assurance that regulatory authorities will not take a contrary position or that the Members of the Obligated Group will not be found to have violated the Anti-Kickback Law. Specifically, the Corporation's hospital joint ventures, Clarian West and Clarian North, described in APPENDIX A, do not satisfy all of the criteria for any current safe harbor under the Anti-Kickback Law. While Management believes these joint ventures are in compliance despite not meeting a safe harbor, they may be subject to closer scrutiny than an arrangement that complies with a safe harbor. No assurance can be given that, if investigated, these hospital joint ventures would be found in compliance with the Anti-Kickback Law.

Stark Law

Another federal law (known as the "Stark Law") prohibits, subject to limited exceptions, a physician who has a financial relationship, or whose immediate family has a financial relationship, with entities (including hospitals) providing "designated health services" from referring Medicare patients to such entities for the furnishing of such designated health services. Stark Law designated health services include physical therapy services, occupational therapy services, radiology or other diagnostic services (including MRIs, CT scans and ultrasound procedures), durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, inpatient and outpatient hospital services and clinical laboratory services. The Stark Law also prohibits the entity receiving the referral from filing a claim or billing for the services arising out of the prohibited referral. The prohibition applies regardless of the reasons for the financial relationship and the referral; that is, unlike the federal Anti-Kickback Law, no finding of intent to violate the Stark Law is required. Sanctions for violation of the Stark Law include denial of payment for the services provided in violation of the prohibition, refunds of amounts collected in violation, a civil penalty of up to $15,000 for each service arising out of the prohibited referral, exclusion from the federal healthcare programs, and a civil penalty of up to $100,000 against parties that enter into a scheme to circumvent the Stark Law's prohibition. Under an emerging legal theory, knowing violations of the Stark Law may also serve as the basis for liability under the False Claims Act. The types of financial arrangements between a physician and an entity that trigger the self-referral prohibitions of the Stark Law are broad, and include ownership and investment interests and compensation arrangements.

The 2003 Act contained an 18-month moratorium on physician self-referrals under Medicare/Medicaid to certain new "specialty hospitals." Prior to the 2003 Act, referrals to specialty hospitals were exempt from the Stark Law's prohibitions under that law's exception for referrals to "whole hospitals," defined to include hospitals engaged in the care of patients with a cardiac or an orthopedic condition, patients receiving a surgical procedure or other specialized categories of patients designated by the Secretary of HHS. The moratorium did not apply to "specialty hospitals" determined by the Secretary to be "in operation" or "under development" as of November 18, 2003. The moratorium contained in the 2003 Act expired on June 8, 2005. However, CMS delayed certification of new specialty hospitals through January 2006, effectively extending the moratorium, while CMS considered changes to Medicare to address what it perceived as differences between community hospitals and specialty hospitals.

On August 8, 2006, the United States Department of Health and Human Services issued a final report to the Congress pursuant to Section 5006(a)(1) of the DRA recommending a strategic and implementation plan to address issues related to physician investments in specialty hospitals ("Final Report"). Although the Final Report does not recommend prohibiting physician investment in specialty hospitals, it notes the following recommendations: (i) reform payment rates for inpatient hospital services through DRG refinements; (ii) reform payment rates for ambulatory surgery centers; (iii) closer scrutiny of whether entities meet the definition of a hospital; and (iv) review of procedures for approval for participation in Medicare. In an August 8, 2006 press release from CMS, CMS notes that the plan in the Final Report "highlights the importance of moving forward with the major payment reforms to the hospital inpatient prospective and ambulatory surgical center payment systems that have been initiated by CMS. By eliminating the sometimes large difference between payments and costs for some types of hospital care, improper incentives can be eliminated for physicians and hospitals to invest in services simply because they are most profitable." It is unknown at this time what action, if any, Congress will take based upon the Final Report.

On March 26, 2004, CMS issued a second phase of the regulations implementing the Stark Law. Those regulations became effective on July 26, 2004. Those regulations changed the requirements to meet certain Stark Law exceptions and added new exceptions to the Stark Law. At a minimum, the new Stark regulations may require the Members of the Obligated Group to amend or terminate certain arrangements with physicians or other referral sources to comply with the new regulations' requirements. At this point, it is uncertain whether or how these regulations will affect the financial condition and results of operations of the Members of the Obligated Group.

Although management of the Members of the Obligated Group believes that the arrangements of the Members of the Obligated Group with physicians should not be found to violate the Stark Law, as currently interpreted, there can be no assurance that regulatory authorities will not take a contrary position or that the Members of the Obligated Group will not be found to have violated the Stark Law. Specifically, management has taken the position that the joint venture hospitals described in APPENDIX A, Clarian North and Clarian West, are general acute care hospitals rather than specialty hospitals. Sanctions under the Stark Law, including exclusion from the Medicare and Medicaid programs, could have a material adverse effect on the financial condition and results of operations of the Members of the Obligated Group.

False Claims Laws

There are principally three federal statutes addressing the issue of "false claims." First, the Civil False Claims Act imposes civil liability (including substantial monetary penalties and damages) on any person or corporation that (1) knowingly presents or causes to be presented a false or fraudulent claim for payment to the United States government; (2) knowingly makes, uses, or causes to be made or used a false record or statement to obtain payment; or (3) engages in a conspiracy to defraud the federal government by getting a false or fraudulent claim allowed or paid. Specific intent to defraud the federal government is not required to act with knowledge. This statute authorizes private persons to file qui tam ("Qui Tam") actions on behalf of the United States. Qui Tam actions have been and, in the future, could be brought against the Clarian Health System's hospitals. See "LITIGATION AND AUDITS" in APPENDIX A hereto.

In addition to the Civil False Claims Act, the Civil Monetary Penalties Law authorizes the imposition of substantial civil money penalties against an entity that engages in activities including, but not limited to, (1) knowingly presenting or causing to be presented, a claim for services not provided as claimed or which is otherwise false or fraudulent in any way; (2) knowingly giving or causing to be given false or misleading information reasonably expected to influence the decision to discharge a patient; (3) offering or giving remuneration to any beneficiary of a federal health care program likely to influence the receipt of reimbursable items or services; (4) arranging for reimbursable services with an entity which is excluded from participation from a federal health care program; (5) knowingly or willfully soliciting or receiving remuneration for a referral of a federal health care program beneficiary; or (6) using a payment intended for a federal health care program beneficiary for another use. The Secretary of HHS, acting through the OIG, also has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

Finally, it is a criminal federal health care fraud offense to: (1) knowingly and willfully execute or attempt to execute any scheme to defraud any healthcare benefit program; or (2) to obtain, by means of false or fraudulent pretenses, representations or promises any money or property owned or controlled by any healthcare benefit program. Penalties for a violation of this federal law include fines and/or imprisonment, and a forfeiture of any property derived from proceeds traceable to the offense.

Physician Recruitment

The Internal Revenue Service ("IRS") and OIG have issued various pronouncements that could limit physician recruiting and retention arrangements. In IRS Revenue Ruling 97-21, the IRS ruled that tax-exempt hospitals that provide recruiting and retention incentives to physicians risk loss of tax-exempt status unless the incentives are necessary to remedy a community need and, accordingly, provide a community benefit; improvement of a charitable hospital's financial condition does not necessarily constitute such a purpose. The OIG has taken the position that any arrangement between a federal healthcare program-certified facility and a physician that is intended to encourage the physician to refer patients may violate the federal Anti-Kickback Law unless a regulatory exception applies. Physician recruiting and retention arrangements may also implicate the Stark Law. While the OIG has promulgated a practitioner recruitment safe harbor and CMS has created a Stark Law exception for practitioner recruitment, the safe harbor and Stark Law exception are limited to practice recruitment in areas that are health professional shortage areas, and to the recruitment of new physicians who are relocating their practices, respectively. In addition, as noted above, recent Stark Law regulations promulgated in March 2004 have modified the Stark Law recruitment exception and apply both to new arrangements as well as recruitment arrangements already in existence.

Management of the Members of the Obligated Group believes that the physician recruitment programs of the Members of the Obligated Group are in material compliance with these laws and policies, but no assurance can be given that future laws, regulations or policies will not have a material adverse impact on the ability of the Members of the Obligated Group to recruit and retain physicians.

Emergency Medical Treatment and Labor Act

The federal Emergency Medical Treatment and Labor Act ("EMTALA") imposes certain requirements on hospitals and facilities with emergency departments. Generally, EMTALA requires that hospitals provide "appropriate medical screening" to patients who come to the emergency department to determine if an emergency medical condition exists. The hospital must stabilize the patient, and the patient cannot be transferred unless stabilization has occurred. On September 5, 2003, CMS issued rules clarifying hospital obligations under EMTALA. These rules expand the definition of hospital emergency department to include any department or facility of the hospital, regardless of whether it is located on or off the main hospital campus, that (i) is licensed by the state in which it is located under applicable state law as an emergency room or emergency department; (ii) is held out to the public as a place that provides care on an emergency medical or urgent care basis or (iii) provides at least one-third of all of its outpatient visits for the examination and treatment of emergency medical conditions. The new rules also clarify the physician "on-call" requirements, now allowing hospitals the discretion to develop their on-call lists in a way that best meets the needs of their communities. Furthermore, the rules permit hospital departments that are off-campus to provide the most effective way for caring for emergency patients without requiring that the patient be moved to the main campus.

In addition, emergency room services provided to screen and stabilize a Medicare beneficiary furnished after January 1, 2004, must be evaluated for Medicare's "reasonable and necessary" requirements on the basis of information available to the treating physician or practitioner at the time the services were ordered.

Failure to comply with EMTALA may result in a hospital's exclusion from the Medicare and/or Medicaid programs, as well as civil monetary penalties. As such, failure of a Member of the Obligated Group to meet its responsibilities under EMTALA could adversely affect the financial condition of the Members of the Obligated Group.

Management of the Members of the Obligated Group believes its policies and procedures are in material compliance with EMTALA. Two inquiries about possible violations of EMTALA have been initiated against the Corporation. See "LITIGATION AND AUDITS" in APPENDIX A hereto. Any sanctions imposed as a result of an EMTALA violation could have a material adverse effect on the future operations or financial condition of the Members of the Obligated Group.

State Laws and Regulations

States are increasingly regulating the delivery of health care services in response to the federal government's failure to adopt comprehensive health care reform measures. Much of this increased regulation has centered on the managed care industry. State legislatures have cited their right and obligation to regulate and to oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. A number of states, for example, have enacted laws mandating a minimum of forty-eight hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions that prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Members of the Obligated Group could be subject to a variety of state health care laws and regulations affecting both managed care organizations and health care providers. In addition, the Members of the Obligated Group could be subject to state laws and regulations prohibiting, restricting or otherwise governing preferred provider organizations, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine;" selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Members of the Obligated Group choose to engage in transactions subject to such laws, or are considered by a state in which they operate to be engaging in such transactions, the Members of the Obligated Group may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs and risks upon the Members of the Obligated Group.

Joint Ventures

The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Law, since the parties to joint ventures are typically in a position to refer patients of federal health care programs. In its 1989 Special Fraud Alert, the OIG raised concern about certain physician joint ventures where the intent is not to raise investment capital to start a business but rather to "lock up a stream of referrals from the physician investors and compensate these investors indirectly for these referrals." The OIG listed various features of suspect joint ventures, but noted that its list was not exhaustive. These features include: (i) whether investors are chosen because they are in a position to make referrals; (ii) whether physicians with more potential referrals are given larger investment interests; (iii) whether referrals are tracked and referral sources shared with investing physicians; (iv) whether the overall structure is a "shell" (i.e., one of the parties is an ongoing entity already engaged in a particular line of business); and (v) whether investors are required to invest a disproportionately small amount or are paid extraordinary returns in comparison with their risk.

In April 2003, the OIG issued a Special Advisory Bulletin indicating that "contractual joint ventures" (where a provider expands into a new line of business by contracting with an entity that already provides the items or services) may violate the Anti-Kickback Law and expressing skepticism that existing statutory or regulatory safe-harbors would protect suspect contractual joint ventures.

In addition, under the federal tax laws governing Section 501(c)(3) organizations, a tax-exempt hospital's participation in a joint venture with for-profit entities must further the hospital's exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital's tax-exemption may be revoked, the hospital's income from the joint venture may be subject to tax, or the parties may be subject to some other sanction. See "BONDHOLDERS' RISKS—Tax-Exempt Status of the Members of the Obligated Group and the Bonds" for further discussion of risks related to the tax-exempt status of the Corporation and members of the Credit Group.

Any evaluation of compliance with the Anti-Kickback Law or tax laws governing Section 501(c)(3) organizations depends on the totality of the facts and circumstances. While management of the Obligated Group believes that the joint venture arrangements to which the Obligated Group is a party are in material compliance with the Anti-Kickback Law and OIG policies, and the tax laws governing Section 501(c)(3) organizations, any determination that a Member of the Obligated Group is not in compliance with the Anti-Kickback Law and OIG policies could have a material adverse effect on the future financial condition of the Obligated Group.

The Members of the Obligated Group have entered or are in the process of entering into several joint ventures with physicians. The ownership and operation of certain of these joint ventures may not meet safe harbors under the Anti-Kickback Law. Management of the Members of the Obligated Group has proceeded or is proceeding with the transactions related to the joint ventures on the assumption, after consultation with its legal counsel, that each of the transactions related to the joint ventures is in compliance with the Stark Law and the tax laws governing Section 501(c)(3) organizations, and is otherwise generally in compliance with the Anti-Kickback Law. However, there can be no assurance that regulatory authorities will not take a contrary position or that such transactions will not be found to have violated the Stark Law, the tax laws governing Section 501(c)(3) organizations and/or the Anti-Kickback Law. Any such determination could have a material adverse effect on the financial condition of the Obligated Group.

HIPAA Administrative Simplification

Providers of health care and operators of health plans are significantly affected by certain health information requirements contained in the "administrative simplification" provisions of HIPAA. Pursuant to HIPAA, most covered entities, including the Members of the Obligated Group, were required to make significant changes to hardware, software and operations. The Members of the Obligated Group have implemented these changes, believe that such implementation has been successful and believe that reimbursement of claims will not be materially disrupted. Disruptions in reimbursement could have a material adverse effect on the financial condition of the Obligated Group.

On December 28, 2000, HHS published the final privacy rules (the "Privacy Rule") to implement other requirements of the "administrative simplification" section of HIPAA. The Privacy Rule explicitly covers health care providers, health plans, and certain clearinghouses of health care information (i.e., a "covered entity"). The Privacy Rule provides the first comprehensive federal protection for the privacy of health information. It covers all medical records and other identifiable health information used, maintained or disclosed by a covered entity whether communicated electronically, on paper or orally. Management of the Obligated Group believes that it is in material compliance with the Privacy Rule.

Finally, HHS has published regulations establishing standards concerning the security of health care data that is transmitted electronically (the "Security Standards"). The final version of the Security Standards was published February 20, 2003. The Security Standards require covered entities such as the Obligated Group Members to undertake a wide range of activities designed to enhance security of electronic information. These measures include implementing administrative, physical and technical safeguards to protect electronic health information and ensuring the confidentiality, integrity and availability of electronic health information. Most covered entities were required to comply with the Security Standards by April 20, 2005. Management of the Members of the Obligated Group believes that it is in material compliance with the Security Standards.

Market Dynamics

In providing health care services, each Member of the Obligated Group competes with a number of other providers in its service area, including for-profit and nonprofit providers of acute health care services. See "SERVICE AREAS" in APPENDIX A for a description of the principal competitors of the Obligated Group in its service areas.

In addition, other affiliations among health care providers in the service areas of the Members of the Obligated Group may be either in a formative phase or under negotiation. Competition could also result from certain health care providers that may be able to offer lower priced services to the population served by the Members of the Obligated Group. These services could be substituted for some of the revenue generating services currently offered by the Members of the Obligated Group. The services that could serve as substitutes for hospital treatment include skilled, specialized and residential nursing facilities, home care, drug and alcohol abuse programs, ambulatory surgical centers, expanded preventive medicine and outpatient treatment, freestanding independent diagnostic testing facilities, increasingly sophisticated physician group practices and specialty hospitals, such as cardiac care hospitals and childrens' hospitals. Certain of such forms of healthcare delivery are designed to offer comparable services at lower prices, and the federal government and private third-party payors may increase their efforts to encourage the development and use of such programs. In addition, future changes in state and federal law may have the effect of increasing competition in the healthcare industry. The effect on the Members of the Obligated Group of any such affiliations or entry into the market by alternative providers of health care services, if completed, cannot be determined at this time, but the management of the Members of the Obligated Group believes that the Members of the Obligated Group have positioned themselves to effectively provide community-based health care throughout the areas served by the Clarian Health System.

Licensing, Accreditations, Investigations and Audits

On a regular basis, health care facilities, including those of the Members of the Obligated Group are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payers, the JCAHO and other accrediting bodies. Renewal and continuance of certain of these licenses, certifications and accreditation are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Members of the Obligated Group. These activities generally are conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could result in a loss or reduction in the scope of licensure, certification or accreditation of the Members of the Obligated Group, or could reduce the payment received or require repayment of amounts previously remitted.

Each Member of the Obligated Group is subject to periodic review by the JCAHO, and the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974. From time to time, accrediting bodies may review their accreditations of Members of the Obligated Group and recommend certain actions or impose conditions on an existing accreditation. Management currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the ability of the Members of the Obligated Group to operate all or a portion of their facilities, and, consequently, could adversely affect the ability of the Members of the Obligated Group to make principal, interest and premium, if any, payments with respect to the Bonds. Management does not expect any such review to require actions or impose conditions that could not be satisfied or to adversely affect the continuing accreditation of any Member of the Obligated Group. No assurance can be given as to the effect on future operations of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Future Legislation

Legislation is periodically introduced in the U.S. Congress and the Indiana General Assembly that could result in limitations on hospital revenues, reimbursement, costs or charges or that could require an increase in the quantity of indigent care required to maintain charitable status. The effect of any such proposals, if enacted, cannot be determined at this time.

In addition to legislative proposals previously discussed herein, other legislative proposals that could have an adverse effect on the Members of the Obligated Group include: (a) any changes in the taxation of nonprofit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax exempt financing for corporations described in Section 501(c)(3) of the Code; and (c) regulatory limitations affecting the ability of the Members of the Obligated Group to undertake capital projects or develop new services. Each Member of the Obligated Group currently pays real estate taxes on those of its facilities (or portions of facilities) that are not used for its healthcare activities.

Legislative bodies have considered legislation concerning the charity care standards that nonprofit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating that nonprofit, charitable hospitals have an open-door policy toward Medicare and Medicaid patients as well as offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on nonprofit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. The scope and effect of legislation, if any, that may be enacted at the federal or state levels with respect to charity care of nonprofit hospitals cannot be predicted. Any such legislation or similar legislation, if enacted, could have the effect of subjecting a portion of the income of a Member of the Obligated Group to federal or state income taxes or to other tax penalties and adversely affect the ability of the Members of the Obligated Group individually and of the Obligated Group, taken as a whole, to generate net revenues sufficient to meet its obligations and to pay the debt service on the Bonds and its other obligations.

Malpractice Lawsuits and Malpractice Insurance

The ability of, and the cost to, the Members of the Obligated Group to insure or otherwise protect themselves against malpractice claims may adversely affect their future results of operations or financial condition. For further information, see "LITIGATION AND AUDITS" in APPENDIX A hereto.

The ability of health care providers to obtain malpractice insurance in Indiana, like most of the rest of the United States, has significantly deteriorated as rates for such insurance have increased, commercial providers have reduced their participation in, or withdrawn entirely from, the medical malpractice insurance realm, and PHICO, a Pennsylvania private malpractice insurer that had written such medical malpractice policies nationally, was declared insolvent. In addition, the events of September 11, 2001 and the attendant decline in financial markets and their impact on insurance companies' assets had an adverse impact on the medical malpractice insurance market. The ability of the Members of the Obligated Group to insure or otherwise protect themselves against malpractice claims remains in question and the cost of such protection will likely continue to rise, which may adversely affect the financial condition and results of operations of the Obligated Group.

Many hospitals and health care providers are having difficulty renewing or obtaining commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. The insurers are providing lower amounts of coverage, requiring greater deductibles and charging larger premiums. Policies issued may not be renewed or renewable. While management of the Members of the Obligated Group considers the Obligated Group's insurance coverage to be adequate, no assurance can be given that such coverage will be available for purchase in the same amounts and on the same terms in the future.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of the federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. In particular, the Federal Trade Commission has publicly acknowledged increasing enforcement action in the area of physician joint contracting. Likewise, increased enforcement action exists relating to a retrospective review of completed hospital mergers. Violation of the antitrust laws could subject a hospital to criminal and civil enforcement by federal and state agencies, as well as treble damage liability by private litigants. At various times, a Member of the Obligated Group may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint activities among providers with respect to payer contracting, medical staff credentialing, and use of a hospital's local market power for entry into related health care businesses. From time to time, a Member of the Obligated Group may be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose Members of the Obligated Group to antitrust risk from governmental or private sources is dependent on specific facts which may change from time to time. A U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals. Hospitals regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care business in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Government or private parties are entitled to challenge joint ventures that may injure competition. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case, and may have a material adverse impact on the Members of the Obligated Group.

Nationwide Nursing Shortage

Healthcare providers depend on qualified nurses to provide quality service to patients. There is currently a nationwide shortage of qualified nurses. This shortage and the more stressful working conditions it creates for those remaining in the profession are increasingly viewed as a threat to patient safety and may trigger the adoption of state and federal laws and regulations intended to reduce that risk. For example, some states are considering legislation that would prohibit forced overtime for nurses. In response to the shortage of qualified nurses, health care providers have increased and could continue to increase wages and benefits to recruit or retain nurses and have had to hire more expensive contract nurses.

Employees

The ability of the Members of the Obligated Group to employ and retain qualified employees, and their ability to maintain good relations with such employees and the unions they may be represented by, affect the quality of services to patients and the financial condition of the Members of the Obligated Group. For a discussion of the employees of the Obligated Group and the Obligated Group's relationship with its employees, see the discussion under the caption "EMPLOYEES" in APPENDIX A hereto.

Investments

During certain fiscal years, investment income has constituted a significant portion of the net income of the Obligated Group. In other years, the Obligated Group has experienced losses on its investments. No assurance can be given that the investments of the Members of the Obligated Group will produce positive returns or that losses on investments will not occur in the future.

To the extent investment returns are lower than anticipated or losses on investments occur, the Members of the Obligated Group may also be required to make additional deposits in connection with pension fund liabilities.

Environmental Laws and Regulations

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations, facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, and (e) requirements for training employees in the proper handling and management of hazardous materials and wastes.

In its role as an owner and operator of properties or facilities, each Member of the Obligated Group may be subject to liability for investigating and remedying any hazardous substances that may be present on or have migrated off of its property or facilities. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result from damage to individuals, property or the environment and include an interruption of operations, an increase in operating costs, legal liability, damages, injunctions or fines and investigations, administrative proceedings, penalties or other governmental agency actions. The Members of the Obligated Group expect to continue to encounter such risks in the future, and exposure to such risks could materially adversely affect the future financial condition or results of operations of individual Members of the Obligated Group and of the Obligated Group, taken as a whole.

Management of the Members of the Obligated Group is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues involving any Member of the Obligated Group which, if determined adversely, would have a material adverse effect on the future financial condition or results of operations of the Members of the Obligated Group, taken as a whole.

The Master Trustee or the Trustee may decline to enforce the Master Indenture or the Indenture, as the case may be, if the Trustee has not been indemnified to its satisfaction, in accordance with the Indenture, for all liabilities it may incur as a consequence thereof. Such liabilities may include, but are not limited to, costs associated with complying with environmental laws and regulations.

Increased Enforcement Affecting Clinical Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibilities for monitoring federally-funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration ("FDA") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research, The FDA's inspection of facilities increased significantly in recent years. These agencies' enforcement powers range from substantial fines and penalties to exclusions of researchers and suspension or termination of entire research programs. Management of the Members of the Obligated Group believes that clinical research being conducted by the Members of the Obligated Group is in substantial compliance with material applicable requirements.

Technological Changes

Medical research and resulting discoveries have grown exponentially in the last decade. These new discoveries may add greatly to the cost of the Members of the Obligated Group providing services with no or little offsetting increase in federal reimbursement and may also render obsolete certain of the health services of the Members of the Obligated Group. New drugs and devices may increase hospitals' expense because, for the most part, the costs of new drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care. The PPS system imposed on outpatient services does permit a direct pass-through of certain new technologies defined by the government.

The rate of discovery of new drugs and devices has grown dramatically for several reasons. First, as medical discovery grows, it generates new avenues of research and discovery. Second, pharmaceutical and medical device companies are devoting increasing amounts of money to research and development spurred in part by reforms in the regulation of product approval for sale and distribution, The 1990s witnessed significant reforms at the FDA, the agency that regulates the introduction of new drugs and devices to the market. In 1992, Congress passed the Prescription Drug User Fee Act that levied fees on industry to support a substantial upgrade and reorganization of the agency for the purpose of dramatically decreasing the time required to secure approval for new drugs and devices. This Act was renewed and new FDA reforms were enacted by the Food and Drug Administration Modernization Act of 1997. The result of these pieces of legislation has been to cut in half the median time required for new drug approval. Other effects include decrease in the types of devices regulated, reform of the biologics approval process and decrease in clinical development times.

Once these drugs secure market approval, they are often included on hospitals' formularies (the list of drugs maintained by the hospitals for patient care). These may add significant operating expense with no immediate reimbursement through government payers for inpatient services.

A second potential effect is that discoveries could render obsolete the way that services are currently rendered, thereby either increasing expense or reducing revenues. However, any such effect cannot be predicted.

Enforcement of Remedies; Risks of Bankruptcy

The obligations of the Members of the Obligated Group under the Master Indenture and the Obligations are general obligations of the Members of the Obligated Group and are not secured by any liens on real estate, equipment or other assets of the current Members of the Obligated Group or any future Members of the Obligated Group, other than the security interest granted to the Master Trustee in the revenues of the Members of the Obligated Group. Enforcement of the remedies under the Master Indenture, the Loan Agreement and the Indenture may be limited or delayed in the event of application of federal bankruptcy laws or other laws affecting creditors' rights and may be substantially delayed and subject to judicial discretion in the event of litigation or the required use of statutory remedial procedures.

If a Member of the Obligated Group were to file a petition for relief under Title 11 of the United States Code (the "Bankruptcy Code"), the order for relief entered in response to the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member of the Obligated Group and any interest it has in property. The commencement of a case under the Bankruptcy Code could greatly affect the rights of the non-filing Members of the Obligated Group, including, but not limited to, allowing the use of cash and cash equivalents pledged to the Members of the Obligated Group, impairing the claims of the Members of the Obligated Group, and potentially discharging unpaid obligations of the filing Member of the Obligated Group.

If a bankruptcy court so ordered, such property of the Members of the Obligated Group, including its accounts receivable and proceeds thereof, could be used, at least temporarily, for the benefit of the bankruptcy estate of such Member of the Obligated Group despite the claims of its creditors.

In a case under the Bankruptcy Code, a Member of the Obligated Group could file a plan of reorganization. The plan provides for the comprehensive treatment of all claims against such Member of the Obligated Group, and could result in the modification of rights of any class of claims or interests, secured or unsecured. Other than as provided in the confirmed plan, all claims and interests are discharged and extinguished.

A plan may be confirmed if each class of claims and interests has accepted the plan or if at least one class of impaired claims that is entitled to vote has accepted the plan and the bankruptcy court finds, among other things, that the plan is fair and equitable, does not discriminate unfairly with respect to any nonaccepting class of claims, provides creditors with more than would be received if the estate was liquidated, is proposed in good faith, and that the debtor's performance under the plan is feasible. A class of claims accepts a plan if, of the creditors that vote, more than one-half of the number of claims in the class and at least two-thirds in amount of claims are voted in favor of the plan. Approval by classes of interests requires a vote in favor of the plan by two-thirds in amount. If these levels of votes are attained, those voting against the plan or not voting at all are nonetheless bound by the terms thereof.

A Member of the Obligated Group could also file a case under the Bankruptcy Code to liquidate its assets. In a liquidation, secured claims are paid according to the value of the secured interest, unsecured claims are paid in order of priority, and the costs of administering the estate are paid from the funds of the estate.

Risks Related to Obligated Group Financings

The obligations of the Members of the Obligated Group under the Obligations and the Master Indenture will be limited to the same extent as the obligations of any debtor under applicable federal and state laws governing bankruptcy, insolvency and avoidance of fraudulent transfers and the application of general principles of creditors' rights and as additionally described below. Although, upon the issuance of the Bonds, the Corporation and LaPorte will be the only Obligated Group Members, the Master Indenture permits the addition of other Members of the Obligated Group if certain conditions are met. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Entrance Into the Obligated Group" in APPENDIX C hereto.

The joint and several obligations described herein of the Members of the Obligated Group to make payments of debt service on the Obligations issued pursuant to and under the Master Indenture may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights and by general equitable principles or (2) such payments (a) are requested to be made with respect to payments on any Obligation that is issued for a purpose that is not consistent with the charitable purposes of the Member of the Obligated Group from which such payment is requested or that is issued for the benefit of any entity other than a tax-exempt organization; (b) are requested to be made from any money or assets that are donor restricted or that are subject to a direct or express trust that does not permit the use of such money or assets for such payment; (c) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the money or assets of any present or future Member of the Obligated Group falls within the categories referred to above cannot be determined and could be substantial. The foregoing notwithstanding, the accounts of the Members of the Obligated Group are and will continue to be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the issuance of Additional Indebtedness) are satisfied.

A Member of the Obligated Group may not be required to make any payment of any Obligation, or portion thereof, or the recipient of such payment may be compelled to return such payment, the proceeds of which were not lent or otherwise disbursed to such Member to the extent that such payment would conflict with, or would be prohibited or avoidable under applicable laws.

The application of the law relating to the enforceability of guaranties or obligations of a Member of the Obligated Group to make debt service payments on behalf of another Member of the Obligated Group, is not amenable to an unqualified declaration of whether a transfer would be prohibited or subject to avoidance.

As a general matter, in addition to a transfer of property made with the actual intent to hinder, defraud or delay creditors, a transfer of an interest in property by an entity may be avoided if the transfer is made for less than "reasonably equivalent value" or "fair consideration" and the transferor (i) is insolvent (e.g., is unable to pay its debts as they become due), (ii) rendered insolvent by the transaction, (iii) is undercapitalized (i.e., operating or about to operate without property constituting reasonably sufficient capital given its business operations), or (iv) intended or expected to incur debts that it could not pay as they became due.

The lack of certainty in the treatment of transfers is attributable to several factors. First, there is not a uniform law governing fraudulent transfers. Such transfers may be avoided under the Bankruptcy Code, state law variants of the Uniform Fraudulent Transfer Act and its predecessor, the Uniform Fraudulent Conveyance Act, or other non-uniform statutes or common law principles. Second and more importantly, the standards for determining the reasonable equivalence of value, or the fairness of consideration, and the measure for determining insolvency are subjective standards resolved in the exercise of judicial discretion after engaging in a fact intensive analysis. This subjectivity has resulted in a conflicting body of case law and a lack of certainty as to whether a given transfer would be subject to avoidance.

In addition, the Bankruptcy Code provides a means to avoid transfers of a debtor's interests in property made on account of an antecedent debt within 90 days of the debtor filing for relief, or one year if the transferee is an "insider," if as a result of that transfer the transferee receives more than he would have received in a liquidation of the debtor under Chapter 7 of the Bankruptcy Code. Whether the creation of a lien, or a payment, made by a Member of the Obligated Group would be determined to be avoidable would be dependent on the particular circumstances surrounding the transfer.

There exists, in addition to the foregoing, common law authority and authority under various state statutes pursuant to which courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that the corporation has insufficient assets to carry out its stated charitable purposes or has taken some action that renders it unable to carry out its purposes. Such court action may arise on the court's own motion or pursuant to a petition of the attorney general of a particular state or other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Matters Relating to the Security for the Bonds

Certain amendments to the Master Indenture may be made with the consent of the holders of a majority of the aggregate principal amount of outstanding Obligations. Such amount may be composed wholly or partially of the holders of the outstanding Obligations (including Obligations issued in the future) other than Obligations issued in connection with the issuance of the Bonds. Such amendments could be material and may adversely affect the security of the holders of the Bonds.

Certain amendments to the Indenture may be made with the consent of the holders of not less than a majority of the outstanding aggregate principal amount of the Bonds outstanding under the Indenture. Such amendments may adversely affect the security of the holders of the Bonds.

The effectiveness of the security interest in the revenues of the Obligated Group granted in the Master Indenture may be limited by a number of factors, including (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers; (ii) the absence of an express provision permitting the assignment of receivables due under the contracts with third party payers, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (iii) certain judicial decisions which cast doubt upon the right of the Trustee, in the event of the bankruptcy of a Member of the Obligated Group, to collect and retain revenues due the Members from Medicare, Medicaid and other governmental programs; (iv) commingling of proceeds of revenues with other moneys of the Obligated Group not so pledged under the Master Indenture; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal bankruptcy laws which may affect the enforceability of the Master Indenture or the security interest in the revenues of any Member of the Obligated Group which are earned by such Member within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after, any effectual institution of bankruptcy proceedings by or against such Member; (ix) rights of third parties in revenues converted to cash and not in the possession of the Trustee; and (x) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Indiana Uniform Commercial Code as from time to time in effect.

The facilities of the Obligated Group are not pledged or mortgaged as security for the Bonds. Consequently, in the event of a default under the Indenture, the Bondholders would have the status of general unsecured creditors (except with respect to the pledge of revenues). The facilities of the Obligated Group are not general purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for the facilities if it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Obligated Group or otherwise. As a result, upon any such default, the Trustee may not realize the amount necessary to pay the Bonds in full from the sale or lease of such facilities. The Bonds are not secured by a mortgage on the facilities of the Obligated Group.

Pursuant to the terms of the Master Indenture, Members of the Obligated Group may incur additional Indebtedness (including Indebtedness secured by additional Obligations) that is entitled to the benefits of security that does not extend to any other Indebtedness (including the 2006B Obligation). Such security may include liens on the Obligated Group's Property (including health care facilities) or any depreciation reserve, debt service or interest reserve or similar fund established for such additional Indebtedness. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Security for Obligations" in APPENDIX C hereto.

Certain of the rights and remedies afforded to the holders of Obligations by the Master Indenture, including without limitation the right to demand acceleration of Obligations (including the 2006B Obligation), may be controlled by the holders of a majority in aggregate principal amount of the Obligations.

Interest Rate Swap Risk

In the normal course of business the Obligated Group, after receiving the appropriate approval of its Board of Directors, periodically enters into interest rate swap agreements to hedge interest rate risk. Changes in the market value of such agreements could negatively or positively impact the Obligated Group's operating results and financial condition, and such impact could be material. See footnote 6 to the audited consolidated financial statements of the Obligated Group in APPENDIX B hereto for a description of certain of the Obligated Group's existing swap agreements entered into prior to 2006. Any of the Obligated Group's swap agreements may be subject to early termination upon the occurrence of certain specified events. If either the Obligated Group or the counterparty terminates such an agreement, under certain market conditions the Obligated Group could be obligated to make a termination payment to the counterparty, and such payment could be substantial and potentially materially adverse to the Obligated Group's financial condition.

Certain of the Obligated Group's existing swap agreements require the Obligated Group to secure its obligations in certain circumstances, which circumstances include, without limitation, a downgrade of the long-term debt issued on behalf of the Obligated Group. The Obligated Group's ability to place a lien on its collateral is limited by the Master Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE—Liens on Property" in APPENDIX C hereto. If the Obligated Group is unable to secure its obligations under a swap agreement with sufficient collateral, the counterparty will have the right to terminate such swap agreement and the Obligated Group could be required to make a termination payment to the counterparty, the amount of which could be substantial. Under the terms of those swap agreements, no collateral, based on the current financial condition of the Obligated Group, is currently required to be posted.

In addition, under the 2006B Confirmations, the Obligated Group is obligated to make floating rate payments to the Swap Providers, and the Swap Providers are obligated to make fixed rate payments to the Obligated Group. As such, the Obligated Group's obligations to make payments under the 2006B Confirmations are subject to risks typically associated with variable rate debt.

Tax-Exempt Status of the Members of the Obligated Group and the Bonds

The tax-exempt status of interest on the Bonds depends at present upon maintenance by each member of the Credit Group of their status as tax-exempt organizations by reason of being described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules based on the Code, regulations, and judicial decisions regarding the organization and operation of tax-exempt hospitals and health systems. The IRS' interpretation of and position on these rules as they affect the organization and operation of health care organizations (for example, with respect to providing charity care, joint ventures, physician and executive compensation, physician recruitment and retention, etc.) is constantly evolving. The IRS reserves the power to, and in fact occasionally does, alter or reverse its positions concerning tax-exemption issues, even concerning long-held positions upon which tax-exempt health care organizations have relied.

In addition, the IRS has asserted that tax-exempt hospitals that are in violation of Medicare and Medicaid regulations regarding inducement for referrals may also be subject to revocation of their tax-exempt status. Because a wide variety of hospital-physician transactions potentially violate these broadly stated prohibitions on inducement for referrals, the IRS has broadened the range of activities that may directly affect tax exemption, without defining specifically how those rules will be applied. As a result, tax-exempt hospitals, particularly those that have extensive transactions with physicians, are currently subject to an increased degree of scrutiny and perhaps enforcement by the IRS. The IRS's policy position is not necessarily indicative of a judicial adjudication of the applicable issues.

Section 4958 of the Code imposes excise taxes on "excess benefit transactions" between "disqualified persons" and tax-exempt organizations such as the Credit Group. According to the legislative history and regulations associated with Section 4958, these excise taxes may be imposed by the IRS either in lieu of or in addition to revocation of exemption. The legislation is potentially favorable to taxpayers because it provides the IRS with a punitive option short of revocation of exempt status to deal with incidents of private inurement. However, the standards for tax exemption have not been changed, including the requirement that no part of the net earnings of an exempt entity inure to the benefit of any private individual. Consequently, although the IRS has only infrequently revoked the tax exemption of nonprofit healthcare corporations in the past, the risk of revocation remains and there can be no assurance that the IRS will not direct enforcement activities against any of the members of the Credit Group.

In 1990, the Employee Plans and Exempt Organizations Division of the IRS expanded the Coordinated Examination Program (referred to as "CEP") of the IRS to tax-exempt health care organizations. CEP audits are conducted by teams of revenue agents. The CEP audit teams consider a wide range of possible issues, including the community benefit standard, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business income.

One or more of the members of the Credit Group could be audited by the IRS. Management of the Corporation believes that they have properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, a CEP audit could result in additional taxes, interest and penalties. A CEP audit could ultimately affect the tax-exempt status of any of the members of the Credit Group.

On August 10, 2004, the IRS announced a new enforcement effort (referred to as the "Tax Exempt Compensation Enforcement Project") to identify and curb abuses by charities that pay excessive compensation and benefits to officers and other insiders. The IRS will implement this new effort by contacting nearly 2,000 charities about their compensation practices and procedures. The project's goals are to address the compensation of specific individuals, influence how organizations set compensation, and learn about existing practices. The inquiry will involve both large and small charities, and will also investigate insider transactions, including loans, leases, and other transfers of income and assets to officers and insiders. As a result of such inquiry, the IRS could seek to use the entire range of its enforcement activities, including penalties for filing incorrect information, intermediate sanctions, and revocation of the organization's exempt status. Members of the Obligated Group have received inquiries pursuant to this effort. See "LITIGATION AND AUDITS" in APPENDIX A hereto.

Loss of tax-exempt status by any of the members of the Credit Group could result in loss of the exclusion from gross income of the interest on the Bonds that, in turn, could result in a default under the Indenture, potentially triggering an acceleration of the Bonds. Any such event would have material adverse consequences on the future financial condition and results of operations of the affected members of the Credit Group and, potentially, the Obligated Group as a whole. Additionally, the loss of federal tax-exempt status by a member of the Credit Group could adversely affect its access to future tax-exempt financing.

As described herein under the caption "TAX MATTERS," failure to comply with certain legal requirements may cause the interest on the Bonds to become included in gross income of the recipients thereof for federal income tax purposes. In such event, the Bonds may be accelerated at the written request of holders of not less than 25% of the aggregate principal amount of all the Bonds then outstanding under the Indenture. The Indenture does not provide for the payment of any additional interest or penalty in the event the interest on the Bonds is determined to be includible in gross income for federal income tax purposes.

The IRS has recently reviewed a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. The IRS has typically entered into closing agreements with issuers and beneficiaries of such bond issues under which payments have been made to the IRS. No assurance can be given that the IRS will not examine a Bondholder, a member of the Credit Group or the Bonds. If the Bonds are examined, it may have an adverse impact on their marketability and price and could also result in substantial payments by the Obligated Group to resolve issues raised by the IRS.

Alternative or Integrated Delivery System Development

Many hospitals and health systems, including the Members of the Obligated Group, are pursuing strategies with physicians in order to offer an integrated package of health care services, including physician and hospital services, to patients, health care insurers, and managed care providers. These integration strategies may take many forms, including management service organizations ("MSO"), which may provide physicians or physician groups with a combination of financial and managed care contracting services, office and equipment, office personnel and management information systems. Integration objectives may also be achieved via physician-hospital organizations ("PHOs"), which are typically jointly owned or controlled by a hospital and physician group for the purpose of managed care contracting, implementation and monitoring. Other integration structures include hospital based clinics or medical practice foundations, which may purchase and operate physician practices as well as provide all administrative services to physicians. Many of these integration strategies are capital intensive and may create certain business and legal liabilities for the related hospital or health system.

Often the start-up capitalization for such developments, as well as operational deficits, may be funded by the sponsoring hospital or health system. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity which is carrying out an integrated delivery strategy. In certain of these structures, the sponsoring hospital or health system may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

These types of integrated delivery developments are generally designed to conform to existing trends in the delivery of medicine, to implement anticipated aspects of health care reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved, and, if the development is not functionally successful, it may produce materially adverse results that are counterproductive to some or all of the above-stated goals.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the Medicare anti-referral laws, relevant antitrust laws, and federal or state tax exemption. Such risks will turn on the facts specific to the implementation, operation or future modification of any integrated delivery system. MSOs which operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding tax exemption or compliance with the Medicare anti-referral laws. In addition, depending on the type of development, a wide range of governmental billing and other issues may arise, including questions of the authorization of the entity to bill for or on behalf of the physicians involved. Other related legal and regulatory risks may arise, including employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding health care and medical practice. The potential impact of any such regulatory or legal risks on the Members of the Obligated Group cannot be predicted with certainty. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

Managed Care

Each Member of the Obligated Group contracts with several third party payers. In many markets, including Indiana, managed care plans, primarily health insuring corporations ("HICs"), also known as health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), point of service arrangements ("POS") and self-insured employer plans covered by ERISA and administered by a third party ("ASOs") have largely replaced indemnity insurance as the prime source of nongovernmental payment for provider services. Such "managed care" plans generally use discounts, direction mechanisms, risk-transfer mechanisms and other economic and non-economic incentives to reduce or limit the cost and utilization of health care services. In these markets, hospital inpatient utilization and hospital inpatient revenues per admission have declined as managed care plans penetrate regional markets. In addition, Medicare and Medicaid have instituted managed care contracting programs in certain states, including Indiana, as discussed above.

Under a PPO arrangement, there generally are financial incentives for subscribers to use only those hospitals or providers which contract with the PPO. Under most HIC/HMO plans, private payers limit coverage to those services provided by selected hospitals. With this contracting authority, private payers, including health plans and HICs/HMOs, may direct patients away from nonselected hospitals by denying coverage for services provided by them and providing coverage but with significant financial obligations on the part of the patients.

Most PPOs and HICs/HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. Many health care providers do not have complete information about their actual costs of providing specific types of care, particularly since each patient presents a different mix of services and length of stay. Consequently, the discounts offered to HICs/HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital may vary significantly from projections. Changes in utilization of certain services may be dramatic and unexpected.

Under a POS arrangement, there are financial incentives for subscribers to use a closed panel of hospitals or providers, but subscribers also are able to use hospitals or providers that do not contract with the network. Use of such non-contracting hospitals or providers requires an increased financial contribution from the subscribers, typically in the form of an increased coinsurance or deductible. If the popularity of POS plans increases, more patients may have more freedom to determine where they will obtain their health care and it will become increasingly difficult for health care providers to maintain and/or increase market share by contracting with managed care plans, networks, and other similar entities.

The Members of the Obligated Group have entered into contractual arrangements with PPO, HIC/HMO, ASO and traditional insurers pursuant to which the particular hospital agrees to perform certain health care services for eligible participants at discounted rates. Revenues received under such contracts are expected to be sufficient to cover the variable cost of the services provided.

Some HICs/HMOs mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HIC/HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such enrollees. In some cases, the capitated payment covers total patient care provided, including physician charges. HMOs/HICs also sometimes use other forms of risk-transfer, such as basing payment on a percentage of the subscriber's premium. If payment under an HMO/HIC contract is insufficient to meet the hospital's costs of care, the financial condition of the hospital could erode rapidly and significantly. Often, contracts are enforceable for a stated term, regardless of hospital losses. Further, HMO/HIC contracts are statutorily required to contain a requirement that the hospital care for enrollees for a certain period of time regardless of whether the HMO/HIC has funds to make payment to the hospital. Moreover, statutory requirements also prohibit providers from "balance billing" subscribers, even in the circumstance of an insolvency of an HMO/HIC. Contractual requirements sometimes extend balance billing restrictions and continuity of care obligations to PPOs and ASOs.

Increasingly, physician practice groups and independent practice associations have become a part of the process of negotiating payment rates to hospitals. This involvement has taken many forms, but typically increases the competition for limited payment resources from HMOs/HICs, PPOs and other third party payors. Also, it is reasonable to expect that as payors and employers attempt to limit the amount they will pay for health care, that consumers will be responsible for a larger share of their health care expenses. This could lead to the widespread development of a health care market where patients (and not payors) make the determination as to where to obtain care.

In regions where managed care is becoming prevalent, hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. To do so, regional coverage and aggressive pricing may be required. However, it is also essential that contracting hospitals be able to provide the contracted services without significant operating losses, which may require innovative cost containment efforts. There is no assurance that the Members of the Obligated Group will maintain managed care contracts or obtain other similar contracts in the future. Failure to obtain or maintain contracts could have the effect of materially reducing the market share patient base and gross revenues of the Members of the Obligated Group. Conversely, participation may maintain or increase the patient base, but could result in materially lower net income to the Members of the Obligated Group if they are unable to promptly and adequately contain their costs.

There can be no assurance that managed care contracts entered into by the Members of the Obligated Group with managed care payors will be renewed by such payors upon expiration thereof or will not be terminated prior to expiration thereof. Termination, or expiration without renewal, of managed care contracts could have a material adverse effect on the future financial condition or results of operations of individual Members of the Obligated Group and of the Obligated Group, taken as a whole.

As a consequence of such factors, the effect of managed care on the future financial condition of the Members of the Obligated Group is difficult to predict and may be materially adverse.

Charity Care, Underinsured and Uninsured Patients

Recently, focus has increased on the provision of charity care by nonprofit health care institutions and their pricing policies and billing and collection practices involving the underinsured and uninsured. This increased focus has resulted in congressional hearings, governmental inquiries (including by the IRS) and private class action litigation against more than 100 nonprofit health care institutions nationwide, generally alleging the overcharging of underinsured and uninsured patients. Although the Members of the Obligated Group are not a party to the class action litigation, management of the Members of the Obligated Group cannot predict the impact that these or related developments may have on the Members of the Obligated Group or the health care industry generally.

Bond Ratings

There is no assurance that the ratings assigned to the Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of such Bonds.

Additional Risk Factors

The following factors, among others, may also adversely affect the operation of health care organizations, including Members of the Obligated Group, to an extent that cannot be determined at this time:

- Increased efforts by insurers and governmental agencies to limit the cost of hospital services (including, without limitation, the implementation of a system of prospective review of hospital rate changes and negotiating discounted rates), to reduce the number of hospital beds and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety, and outpatient care.

- Cost increases without corresponding increases in revenue could result from, among other factors: increases in the salaries, wages, and fringe benefits of hospital and clinic employees; increases in costs associated with advances in medical technology or with inflation; or future legislation which would prevent or limit the ability of the Members of the Obligated Group to increase revenues.

- Any termination or alteration of existing agreements between a Member of the Obligated Group and individual physicians and physician groups who render services to the patients of a Member of the Obligated Group or any termination or alteration of referral patterns by individual physicians and physician groups who render services to the patients of a Member of the Obligated Group with whom the Obligated Group does not have contractual arrangements.

- Future contract negotiations between public and private insurers, employers and participating hospitals, including the hospitals of the Members of the Obligated Group, and other efforts by these insurers and employers to limit hospitalization costs and coverage could adversely affect the level of reimbursement to the Members of the Obligated Group.

- The State currently does not have a program for the regulation or review of the rates charged for hospital services furnished to private-paying patients. If any such program were established, it may have an adverse effect on the revenues of the Members of the Obligated Group.

- An inflationary economy and difficulty in increasing room charges and other fees charged while at the same time maintaining the amount or quality of health services may affect the operating margins of the Members of the Obligated Group.

- The cost and effect of any future unionization of employees of the Members of the Obligated Group.

- The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Members of the Obligated Group.

- Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s.

- Limitations on the availability of and increased compensation necessary to secure and retain nursing, technical or other professional personnel.

- Changes in law or revenue rulings governing the nonprofit or tax-exempt status of charitable corporations such as the Members of the Obligated Group, such that nonprofit corporations, as a condition of maintaining their tax-exempt status, are required to provide increased indigent care at reduced rates or without charge or discontinue services previously provided.

- Efforts by taxing authorities to impose or increase taxes related to the property and operations of nonprofit organizations or to cause nonprofit organizations to increase the amount of services provided to indigents to avoid the imposition or increase of such taxes.

- Proposals to eliminate the tax-exempt status of interest on bonds issued to finance health facilities, or to limit the use of such tax-exempt bonds, have been made in the past, and may be made again in the future. The adoption of such proposals would increase the cost to the Members of the Obligated Group of financing future capital needs.

- Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the service areas of the Members of the Obligated Group or by the closing of operations of one or more major employers in such service areas may result in a significant change in the demographics of such service areas, such as a reduction in the population.

In the future, other events may adversely affect the operations of the Members of the Obligated Group, as well as other health care facilities, in a manner and to an extent that cannot be determined at this time.

ABSENCE OF MATERIAL LITIGATION

Authority

There is no controversy or litigation of any nature, to the knowledge of its officers, now pending or threatened against the Authority restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds.

Obligated Group

There is no controversy or litigation of any nature, to the knowledge of their officers, now pending or threatened against the Obligated Group restraining or enjoining the issuance, sale, execution or delivery of the 2006B Obligation, or in any way contesting or affecting the validity of the 2006B Obligation.

As with most healthcare corporations, the Members of the Obligated Group and the Obligated Group Affiliates are subject to certain legal actions which, in whole or in part, are not or may not be covered by insurance or self-insurance because of the type of action or damages requested (*e.g.*, punitive damages), because of a reservation of rights by an insurance carrier or self-insurance program, or because the action has not proceeded to a stage which permits full evaluation. Since such actions either claim punitive damages which could become a liability of the Obligated Group and/or state or threaten causes of action which may not be covered by insurance or self-insurance, insurers for the Obligated Group and the self-insurance program have not provided assurance of coverage, and to the extent any cases have not been served, counsel has not been retained to evaluate them.

No litigation is now served upon or, to the knowledge of the Corporation, otherwise pending or threatened against any Member of the Obligated Group or any Obligated Group Affiliate which in the aggregate would have a material adverse effect on the Obligated Group's operations or condition, financial or otherwise. See "LITIGATION AND AUDITS" in APPENDIX A hereto.

TAX MATTERS

In the opinion of Ice Miller LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is excludable from gross income under Section 103 of the Code for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Authority and the Corporation, the Obligated Group Members and the Obligated Group Affiliates with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is exempt from taxation in the State of Indiana. This opinion relates only to the exemption of interest on the Bonds for State of Indiana income tax purposes. See APPENDIX D for the form of approving opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Authority, the Corporation, the Obligated Group Members and the Obligated Group Affiliates will covenant not to take any action nor fail to take any action, within their respective power and control, with respect to the Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Indenture, the Loan Agreement and certain certificates and agreements to be delivered on the date of delivery of the Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Indenture if interest on the Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the Issue Date of the Bonds.

The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in I.C. 6-5.5) which, in general, are all corporations which are transacting the business of a financial institution in the State of Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisors regarding the impact of this legislation on their ownership of the Bonds.

Although Bond Counsel will render an opinion that interest on the Bonds is excludable from federal gross income and exempt from State of Indiana income tax, the accrual or receipt of interest on the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and a Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, "S" corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with regard to other tax consequences of owning the Bonds.

ORIGINAL ISSUE DISCOUNT

The initial offering price of the Bonds maturing on February 15, 2031 (the "Discount Bonds"), is less than the principal amount payable at maturity or call date. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of each maturity of the Discount Bonds (or portions thereof) as set forth on the inside cover page of this Official Statement (assuming it is the first price at which a substantial amount of that maturity, or a portion thereof, is sold) (the "Issue Price for such maturity"), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity, or a portion thereof, and who holds such Discount Bond to maturity may treat the full amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes and will not, under present federal income tax law, realize taxable capital gain upon payment of the Discount Bond at maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bonds on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending February 15 and August 15 (with straight-line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of the Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors as to the amount of original discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

As described under the caption "TAX MATTERS" above, the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisers with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial public offering should consult their own tax advisers with regard to the other tax consequences of owning the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisers with respect to the state and local tax consequences of owning Discount Bonds. It is possible under the applicable provisions governing the determination of state and local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial offering prices of the Bonds maturing on February 15, 2007 through February 15, 2026, inclusive, and the Term Bonds maturing on February 15, 2030 and February 15, 2033 (collectively, the "Premium Bonds"), are greater than the principal amounts payable at maturity or call date. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity or call). The amount of amortizable Bond Premium will be computed on the basis of the owner's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning treatment of Bond Premium.

LEGAL MATTERS

Legal matters incident to the issuance of the Bonds are subject to the unqualified approving opinion of Ice Miller LLP, Indianapolis, Indiana, Bond Counsel. Certain other legal matters will be passed upon for the Obligated Group by its counsel, Norman G. Tabler, Jr., Esq., General Counsel, and for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana.

Baker & Daniels LLP and Ice Miller LLP also represent the Corporation on various matters not related to the financing.

JPMorgan Chase & Co. ("JPMorgan") has entered into an agreement with The Bank of New York Company ("BONY") pursuant to which JPMorgan intends to exchange portions of its corporate trust business, including municipal and corporate trusteeships, for BONY's consumer, small business and middle market banking businesses. This transaction has been approved by both companies' boards of directors and is subject to regulatory approvals. It is expected to close in the late third quarter or fourth quarter of 2006.

RATINGS

Fitch Ratings ("Fitch"), Standard & Poor's Credit Market Services, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") are expected to assign ratings to the Obligated Group of "A+," "A+," and "A2," respectively. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The Obligated Group furnished to the rating agencies certain information and material concerning the Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. The Obligated Group and the Underwriters have undertaken no responsibility either to bring to the attention of the Holders of the Bonds any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The following is a brief summary of certain provisions of the Continuing Disclosure Undertaking Agreement of the Corporation (the "Continuing Disclosure Agreement") and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Continuing Disclosure Agreement, a copy of which is available upon request from the Corporation.

Annual Financial Information Disclosure

The Corporation covenants that it will disseminate the Quarterly Information and the Annual Information (described below) and audited consolidated financial statements of the Corporation and its subsidiaries, to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") then recognized by the SEC for purposes of the Rule and to any public or private repository designated by the State of Indiana as the state depository (the "SID") and recognized as such by the SEC for purposes of the Rule. The Corporation is required to deliver such information so that such entities receive the information by the dates specified in the Continuing Disclosure Agreement.

"Quarterly Information" means unaudited consolidated quarterly financial information for the Corporation and its subsidiaries for each fiscal quarter (excluding the last fiscal quarter of each fiscal year), beginning with the fiscal quarter ending September 30, 2006.

"Annual Information" means (i) unaudited consolidated financial statements of the Corporation and its subsidiaries if audited financial statements are not then available, (ii) an update of the table appearing under the heading "FORECASTED DEBT SERVICE REQUIREMENTS" herein, and (iii) operating data of the type included in APPENDIX A of this Official Statement under the headings "SERVICE AREAS—Methodist/IU/Riley Hospitals Service Area—Market Share," "OPERATING INFORMATION—Bed Complement," "OPERATING INFORMATION—Utilization and Operating Statistics," "FINANCIAL INFORMATION—Coverage of Debt Service," "FINANCIAL INFORMATION—Sources of Revenue," "MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE," "INSURANCE" (but only to the extent there are any material changes that are not otherwise disclosed in the Annual Information), and "LITIGATION AND AUDITS" (but only to the extent there are any material changes that are not otherwise disclosed in the Annual Information).

Events Notification; Material Events Disclosure

The Corporation covenants that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB") and to the SID, if any, and to the Trustee in a timely manner the disclosure of the occurrence of any of the events described below with respect to the Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The events are:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. unscheduled draws on debt service reserves reflecting financial difficulties;

4. unscheduled draws on credit enhancements reflecting financial difficulties;

5. substitution of credit or liquidity providers, or their failure to perform;

6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. modifications to rights of holders of the Bonds;

8. bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture);

9. defeasances;

10. release, substitution or sale of property securing repayment of the Bonds; and

11. rating changes.

Consequences of Failure of the Corporation to Provide Information

The Corporation shall give notice in a timely manner to each NRMSIR or to the MSRB and Trustee and to the SID, if any, of any failure to provide disclosure of Quarterly or Annual Information and audited financial statements when the same are due under the Continuing Disclosure Agreement.

In the event of a failure of the Corporation to comply with any provision of the Continuing Disclosure Agreement, the Beneficial Owner of any Bonds may seek specific performance by court order, to cause the Corporation to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, the Master Indenture, the 2006B Obligation or the Loan Agreement, and the sole remedy under the Continuing Disclosure Agreement shall be an action to compel performance. Neither the Corporation nor any officer, director, employee or agent thereof shall be liable for any claims for monetary damages or attorney's fees whatsoever for any breach of the Continuing Disclosure Agreement.

Modification

Notwithstanding any other provision of the Continuing Disclosure Agreement, the Corporation and the Trustee may amend or modify the Continuing Disclosure Agreement, if either:

(1) (a) the amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Corporation or type of business conducted;

(b) the Continuing Disclosure Agreement, as so amended or modified would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) such amendment or modification does not materially impair the interests of the Beneficial Owners of the Bonds, as determined either by parties unaffiliated with the Authority or the Corporation (such as the Trustee or nationally recognized bond counsel) or an approving vote of the holders of the requisite percentage of Outstanding Bonds as required under the Indenture at the time of such amendment or modification; or

(2) such amendment or modification (including an amendment or modification which rescinds the Continuing Disclosure Agreement) is permitted by the Rule, as then in effect.

Termination of Continuing Disclosure Agreement

The Continuing Disclosure Agreement shall terminate upon the earlier of (i) the date of the last payment of principal or redemption price, if any, and interest to accrue on, all the Bonds or (ii) the date the Bonds are defeased pursuant to the provisions of the Indenture.

Dissemination Agent

The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out their obligations under the Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

In the previous five years, the Corporation has not failed to comply, in all material respects, with any of its existing continuing disclosure undertakings.

UNDERWRITING

The Underwriters have agreed to purchase the Bonds at a purchase price of $385,326,205.90, which amount is equal to the par amount of the Bonds, plus net original issue premium of $11,624,759.65, less Underwriters' discount of $1,783,553.75. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds, if any are purchased, and contains the agreement of the Obligated Group to indemnify the Underwriters and the Authority against certain liabilities.

FINANCIAL STATEMENTS

The consolidated financial statements of the Corporation as of December 31, 2005 and 2004 and for the years then ended, included in this Official Statement, have been audited by Ernst & Young, LLP, independent auditors, as stated in their report included in this Official Statement appearing in APPENDIX B hereto. Such consolidated financial statements include financial information with respect to other entities not included in the Credit Group that are included in the Corporation's consolidated financial statements in accordance with accounting principles generally accepted in the United States.

The financial data for the six-month periods ended June 30, 2006 and 2005 are derived from unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring and other accruals, which the Corporation considers necessary for a fair presentation of the financial position, the results of operations and changes in net assets and cash flows for these periods. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results for the entire year ending December 31, 2006. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included herein.

MISCELLANEOUS

The foregoing and subsequent summaries and descriptions of provisions of the Bonds, the Indenture, the Loan Agreement, the Master Indenture and the 2006B Obligation and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement.

This Official Statement has been approved by the Authority and executed by the Corporation, as Obligated Group Agent. This Official Statement is not to be considered as a contract or agreement between the Authority, or the Obligated Group and the purchasers or Holders of any of the Bonds.

INDIANA HEALTH AND EDUCATIONAL FACILITY FINANCING AUTHORITY

By: /s/ Ryan C. Kitchell
Vice Chair

CLARIAN HEALTH PARTNERS, INC., as Obligated Group Agent

By: /s/ Daniel F. Evans, Jr.
President and Chief Executive Officer

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APPENDIX A

INFORMATION CONCERNING CLARIAN HEALTH PARTNERS, INC.

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OVERVIEW OF CLARIAN HEALTH PARTNERS, INC.

Clarian Health Partners, Inc. ("*Clarian Health*"), an Indiana private, nonprofit organization (exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"), and classified as a public charity under Section 509(a) of the Code), is a health care system that provides services throughout the State of Indiana. Clarian Health's mission is to improve the health of its patients and the communities it serves through innovation and excellence in care, education, research and service.

Services provided by Clarian Health include: acute, non-acute, tertiary, and quaternary care services on an inpatient, outpatient and emergency basis; medical management under managed care contracts; medical education and research; health care diagnostic and treatment services for individuals and families; occupational health care for businesses; and home health care. The principal operating activities of Clarian Health are conducted by wholly owned or controlled facilities and subsidiaries.

Clarian Health owns and operates three hospital facilities located within one mile of each other in the City of Indianapolis, Indiana, which are together licensed as one acute care hospital. Methodist Hospital ("*Methodist Hospital*") is an acute care and tertiary care facility that currently operates 800 beds and is Indiana's largest hospital facility. Indiana University Hospital and Outpatient Center ("*Indiana University Hospital*") is an acute care academic medical facility that currently operates 338 beds. James Whitcomb Riley Hospital for Children ("*Riley Hospital*") is an acute care and tertiary care facility that currently operates 246 beds, and operates Indiana's largest and most comprehensive inpatient care and ambulatory care program for children. Methodist Hospital, Indiana University Hospital and Riley Hospital are referred to together as "Methodist/IU/Riley" or "Clarian Health hospital." Methodist/IU/Riley consistently has been listed as among the best hospitals in the United States by US News & World Report.

Clarian Health constructed a 1.5 mile monorail system (the "People Mover") connecting the Methodist Hospital, Indiana University Hospital and Riley Hospital campuses, which allows medical professionals, employees and patients to travel between locations easily. The People Mover also allows clinical specimens to be sent back and forth through a pneumatic tube system.

In addition to Methodist/IU/Riley, Clarian Health owns and operates a number of outpatient facilities in the Indianapolis area providing a variety of ambulatory care services including radiology, laboratory, surgery, rehabilitation services and physician offices.

Clarian Health is the sole corporate member of LaPorte Regional Health System, Inc. ("*LaPorte*"), which operates LaPorte Hospital and Health Services, an acute care community hospital located in LaPorte, Indiana, approximately 150 miles northwest of Indianapolis with 209 staffed beds. In addition, Clarian Health is the sole corporate member of Goshen Health System, Inc. ("*Goshen*"), which operates an acute care community hospital located in Goshen, Indiana, approximately 150 miles northeast of Indianapolis with 116 inpatient beds. Clarian Health is the sole corporate member of Bedford Regional Medical Center, Inc. ("*Bedford*"), a critical access hospital located in Bedford, Indiana, approximately 75 miles south of Indianapolis with 25 inpatient beds.

Clarian Health has an eighty percent (80%) ownership interest in Clarian Health West, L.L.C. ("Clarian West LLC"), a limited liability company organized to operate Clarian West Medical Center ("Clarian West"), a 97 bed acute care hospital located in a suburban area west of Indianapolis in Hendricks County. The remaining twenty percent (20%) of Clarian West LLC is owned by physicians and physician groups. Clarian West opened in December 2004.

Clarian Health has a sixty-four percent (64%) ownership interest in Clarian Health North, L.L.C. ("Clarian North LLC"), a limited liability company organized to construct and operate Clarian North Medical Center ("Clarian North"), a 182 bed acute care hospital located in a suburban area north of Indianapolis in Carmel, Indiana. The remaining thirty-six percent (36%) of Clarian North LLC is owned by physicians and physician groups. Clarian North opened in December 2005.

Clarian Health is the sole corporate member of (1) Methodist Medical Group, Inc., a nonprofit entity that, through subsidiaries and affiliates, assumes risk through managed care plans, owns a fifty percent (50%) interest in a rehabilitation hospital and employs emergency room and other physicians, and (2) Methodist Occupational Health Centers, Inc., a nonprofit entity that provides occupational health services at locations in Indianapolis, LaPorte, Goshen and Terre Haute. Clarian Health has a majority interest in The Healthcare Group, LLC, which operates managed care plans and owns the majority interest of M Plan, Inc., a health maintenance organization, and a fifty percent interest in The Beltway Surgery Center, LLC, which operates the surgery facilities of one of Clarian Health's outpatient centers on the north side of Indianapolis.

Clarian Health is affiliated with the Indiana University School of Medicine, the only medical school in the State of Indiana and the second largest medical school in the United States. Approximately sixty-five percent of Indiana University's medical residents are educated and trained in a Clarian Health facility, and over seventy percent of Indiana University's pediatric residents are educated and trained at Riley Hospital.

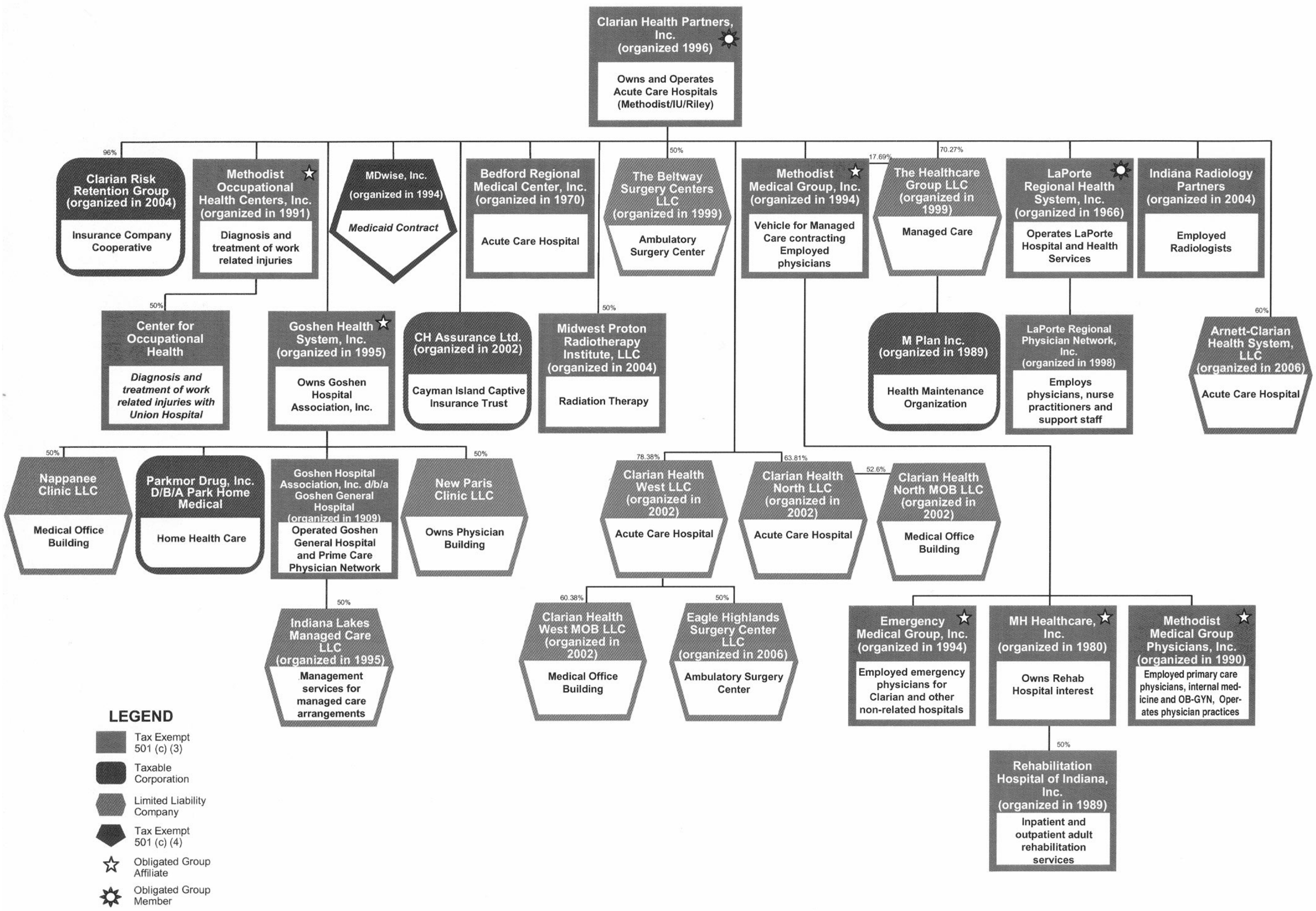
Clarian Health serves more patients in the State of Indiana than any other health care provider and is one of the busiest hospital systems in the nation. Clarian Health's annual net operating revenues exceeded $2 billion in 2005. Current major construction projects include (1) renovation and expansion of Methodist/IU/Riley, including construction of a new Riley bed tower, (2) construction of a cancer hospital on the campus of Indiana University Hospital, (3) construction of Clarian Arnett Medical Center and the adjoining medical office building and (4) a renovation and expansion project at Goshen hospital.

Upon the issuance of the Bonds, Clarian Health and LaPorte will continue to be the only Members of the Obligated Group and, therefore, the only entities liable to make payments on the Obligations. While not Members of the Obligated Group, each Obligated Group Affiliate is controlled by a Member of the Obligated Group and, pursuant to the Master Indenture, is required to transfer amounts to the Obligated Group to enable the Obligated Group to pay principal of, premium, if any, and interest on the Obligations. Together, the Obligated Group Members and the Obligated Group Affiliates represent 96% of the annual net operating revenues of Clarian Health. No other member of the Clarian Health System will have any obligation to make payments on the Obligations.

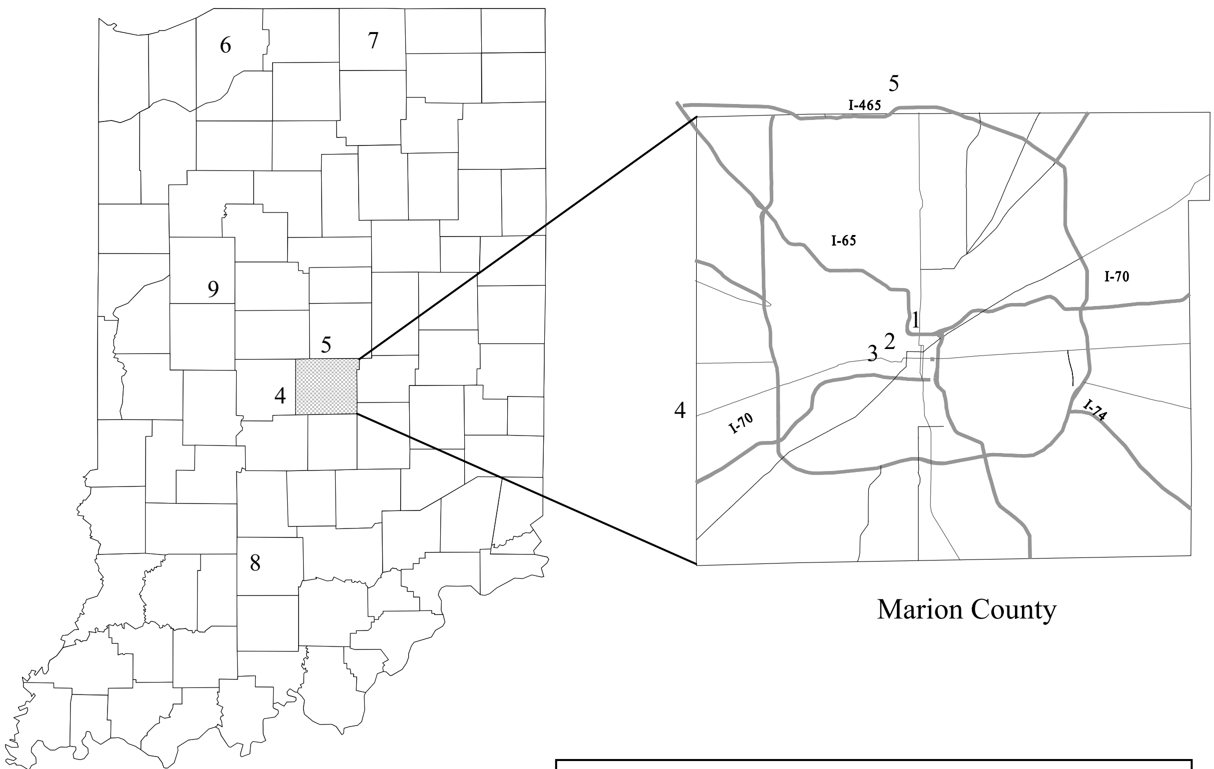
Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Official Statement provided herewith.

ORGANIZATIONAL CHART

Set forth on the following page is an organizational chart reflecting the corporate structure of Clarian Health and its significant subsidiaries and affiliates. Except where indicated, the subsidiaries and affiliates are majority-owned and controlled by Clarian Health.


Clarian Health Partners, Inc. (organized 1996)
Owns and Operates Acute Care Hospitals (Methodist/IU/Riley)
96%
Clarian Risk Retention Group (organized in 2004)
Insurance Company Cooperative
Methodist Occupational Health Centers, Inc. (organized in 1991)
Diagnosis and treatment of work related injuries
MDwise, Inc. (organized in 1994)
Medicaid Contract
Bedford Regional Medical Center, Inc. (organized in 1970)
Acute Care Hospital
50%
The Beltway Surgery Centers LLC (organized in 1999)
Ambulatory Surgery Center
Methodist Medical Group, Inc. (organized in 1994)
Vehicle for Managed Care contracting Employed physicians
17.69%
70.27%
The Healthcare Group LLC (organized in 1999)
Managed Care
LaPorte Regional Health System, Inc. (organized in 1966)
Operates LaPorte Hospital and Health Services
Indiana Radiology Partners (organized in 2004)
Employed Radiologists
50%
Center for Occupational Health
Diagnosis and treatment of work related injuries with Union Hospital
Goshen Health System, Inc. (organized in 1995)
Owns Goshen Hospital Association, Inc.
CH Assurance Ltd. (organized in 2002)
Cayman Island Captive Insurance Trust
50%
Midwest Proton Radiotherapy Institute, LLC (organized in 2004)
Radiation Therapy
M Plan Inc. (organized in 1989)
Health Maintenance Organization
LaPorte Regional Physician Network, Inc. (organized in 1998)
Employs physicians, nurse practitioners and support staff
60%
Arnett-Clarian Health System, LLC (organized in 2006)
Acute Care Hospital
50%
Nappanee Clinic LLC
Medical Office Building
Parkmor Drug, Inc. D/B/A Park Home Medical
Home Health Care
Goshen Hospital Association, Inc. d/b/a Goshen General Hospital (organized in 1909)
Operated Goshen General Hospital and Prime Care Physician Network
50%
New Paris Clinic LLC
Owns Physician Building
78.38%
Clarian Health West LLC (organized in 2002)
Acute Care Hospital
63.81%
Clarian Health North LLC (organized in 2002)
Acute Care Hospital
52.6%
Clarian Health North MOB LLC (organized in 2002)
Medical Office Building
50%
Indiana Lakes Managed Care LLC (organized in 1995)
Management services for managed care arrangements
60.38%
Clarian Health West MOB LLC (organized in 2002)
Medical Office Building
50%
Eagle Highlands Surgery Center LLC (organized in 2006)
Ambulatory Surgery Center
Emergency Medical Group, Inc. (organized in 1994)
Employed emergency physicians for Clarian and other non-related hospitals
MH Healthcare, Inc. (organized in 1980)
Owns Rehab Hospital interest
Methodist Medical Group Physicians, Inc. (organized in 1990)
Employed primary care physicians, internal medicine and OB-GYN, Operates physician practices
50%
Rehabilitation Hospital of Indiana, Inc. (organized in 1989)
Inpatient and outpatient adult rehabilitation services
LEGEND
Tax Exempt 501 (c) (3)
Taxable Corporation
Limited Liability Company
Tax Exempt 501 (c) (4)
Obligated Group Affiliate
Obligated Group Member

MAP OF CLARIAN HEALTH HOSPITALS



Marion County

1	Methodist Hospital
2	Indiana University Hospital and Outpatient Center
3	James Whitcomb Riley Hospital for Children
4	Clarian West
5	Clarian North
6	LaPorte Hospital and Health Services
7	Goshen Health System
8	Bedford Regional Medical Center, Inc.
9	Clarian Arnett Medical Center (under construction)

THE OBLIGATED GROUP

Clarian Health and LaPorte will be the only members of the Obligated Group upon the issuance of the Bonds. The Members of the Obligated Group under the Master Indenture will be jointly and severally liable for the payment of the debt service on the Obligations.

Clarian Health Partners, Inc.

Clarian Health was incorporated in 1995 and became a Member of the Obligated Group in connection with the Consolidation Transactions (as defined below). Effective January 1, 1997, the ownership and operation of Methodist/IU/Riley was consolidated and licensed as a single acute care hospital (the "*Consolidation Transactions*") under the terms of a Definitive Health Care Resources Consolidation Agreement (the "*Consolidation Agreement*") entered into by and among Clarian Health, the Trustees of Indiana University (as owners of Indiana University Hospital and Riley Hospital), and Methodist Health Group, Inc., an Indiana nonprofit corporation, and Methodist Hospital of Indiana, Inc., an Indiana nonprofit corporation (as owners of Methodist Hospital). At the time of the consolidation, Methodist Health Group, Inc. and Methodist Hospital of Indiana, Inc. were merged, and the name of the surviving entity was Methodist Health Group, Inc. Clarian Health has two classes of members—the "Methodist Class" and the "University Class." The Methodist Class consists of the individual members of Methodist Health Group, Inc. The University Class consists of those individuals who serve from time to time as The Trustees of Indiana University. The Consolidation Agreement expires on December 31, 2095. The Consolidation Agreement may be terminated prior to the expiration of its term for the reasons set forth in the Consolidation Agreement, which include, among other reasons, (1) mutual agreement of Clarian Health, Methodist Health Group, Inc., Methodist Hospital of Indiana, Inc. and The Trustees of Indiana University or (2) violation by Clarian Health of the conditions set forth in the delegation resolutions adopted by The Trustees of Indiana University. Upon the occurrence of any other post-closing event of default under the Consolidation Agreement, the parties may pursue any remedy at law or in equity other than termination of the Consolidation Agreement. The Consolidation Agreement provides that no termination may be effective until Clarian Health has been dissolved and its affairs wound up, including provision for payment of all of Clarian Health's liabilities. Such liabilities would include Clarian Health's liabilities with respect to the Obligations.

Clarian Health's core hospital and outpatient facilities are described below. In addition, Clarian Health is the sole corporate member or majority owner of certain Obligated Group Affiliates and other related entities as described in further detail under the captions, "THE OBLIGATED GROUP AFFILIATES" and "RELATED ENTITIES AND OTHER AFFILIATIONS."

Methodist Hospital has been located at the same site since 1908. The hospital facility is the largest in the State of Indiana, currently totaling approximately two million square feet. The central campus is composed of multiple buildings with common hallway, tunnel and skywalk access. The Methodist Hospital facility includes a four-story outpatient surgery center, a patient services building (where transitional care and psychiatric units are maintained), three administrative support buildings and two physician office buildings. A major addition was completed in 1986 in which one-half of Methodist Hospital's nursing units, major ancillary services and service departments were relocated. Approximately 325,000 square feet were added in April 1995, which facilitated the relocation of several departments and nursing units and the renovation of the emergency medical and trauma services area. In 2002, the cardiovascular programs from Indiana University Hospital and Methodist Hospital were consolidated on the Methodist campus by building out shell space, the addition of 16,000 square feet of office and education space in a connector building, the renovation of 60,000 square feet of research space in the Noyes Pavilion, and the build out of two additional catheter laboratories in the existing catheter laboratory area of the East Building. Construction of a consolidated laboratory facility was completed and became operational in 2006. This 180,000 square foot building is located along the People Mover monorail line and consolidates the laboratory functions of Methodist/IU/Riley. A pneumatic tube system allows specimens to be transported from each of the hospitals to the laboratory. Certain administrative support services are located in off-campus leased facilities in Indianapolis, Indiana. In addition, construction has begun on a 6-story, 180,000 square foot education and research center located adjacent to the laboratory facility.

LIFELINE Critical Care Transport ("*LIFELINE*") initiated operation in 1979 with one helicopter based at Methodist Hospital as the first hospital-based helicopter program in Indiana. In 2005, LIFELINE consolidated operations with the Riley Hospital Pediatric & Neonatal Transport Program to better serve the entire State and parts of Michigan, Ohio, Kentucky and Illinois. Operating four helicopters and four ground ambulances, LIFELINE provides state of the art critical care and emergency medicine and emergency transportation services from bases in Greensburg, Indianapolis, Kokomo and Terre Haute for both adults and children. LIFELINE performs nearly 3,000 patient transports annually. Clarian contracts with Omniflight Helicopters of Addison, Texas, to supply, fly and service Eurocopter BK-117 helicopters and uses medium duty Horton ambulances owned and operated by Riley Hospital for Children.

Indiana University Hospital is located on the campus of Indiana University—Purdue University at Indianapolis ("*IUPUI*"). Indiana University Hospital was constructed in 1970 and currently comprises 680,626 square feet. A 204,000 square foot Outpatient Center opened in 1992 and houses adult renal dialysis, various outpatient services and multiple adult physician clinics. Two additional floors constructed by Eli Lilly and Company ("*Lilly*") in 1997 are used for clinical research activities. While the additional floors are owned and operated by Lilly, Lilly contracts for certain clinical and support services from Clarian Health and leases common structural space from Clarian Health. An 85,000 square foot Cancer Center opened in 1996, allowing the concentration of cancer specialists and radiation therapy services to support Indiana University Hospital's multi-disciplinary approach to treating adult cancer patients. Construction of a 400,000 square foot cancer hospital began in September 2005 which will consolidate services to cancer patients on an inpatient and outpatient basis.

James Whitcomb Riley Hospital for Children is located on the IUPUI campus. Riley Hospital was originally constructed in 1925 and currently comprises 614,402 square feet. Major expansions were completed in 1971 and 1986, and the pediatric Cancer Center was completed in 1994. The 255,395 square foot Riley Outpatient Center, located as part of the hospital's main facility, opened in September 2000. The Riley Outpatient Center provides ancillary services, outpatient clinics, surgery suites and support functions. The fourth floor of Riley Outpatient Center was built out in 2002 to include a new child psychology and autism clinic. The emergency department was expanded in 2005 by adding 6 rooms to the exam/treatment areas and providing for an entrance at the north end of the hospital. As Indiana's largest children's hospital, Riley Hospital's specialty facilities include the largest neonatal intensive care and pediatric intensive care units in the State and the State's only pediatric burn unit and parent care unit. Construction of a multi-story inpatient facility has begun which will also expand certain other services.

Outpatient Campuses. In addition to the Methodist/IU/Riley campuses described above, Clarian Health leases and operates four outpatient facilities on the north, south, east and west points of Indianapolis. In August 1999, Clarian Health sold a 50% interest in the surgery operations of its north outpatient center, The Beltway Surgery Center LLC, to a physician group. In July 2006, physicians acquired a 50% interest in the surgery operations of Eagle Highlands outpatient center, Eagle Highlands Surgery Center, LLC, which was previously wholly-owned by Clarian Health. The remaining 50% interest was acquired by Clarian West LLC. Other outpatient operations not described herein are wholly-owned and operated by Clarian Health, and include physician offices on the premises. Additional physician office and outpatient services are available in the surrounding areas.

LaPorte Regional Health System, Inc.

LaPorte is an Indiana nonprofit corporation organized in 1966. Clarian Health became the sole member of LaPorte in January 1998. LaPorte operates LaPorte Hospital and Health Services ("*LaPorte Hospital*"), an acute care community hospital located in LaPorte, Indiana, approximately 150 miles northwest of Indianapolis. LaPorte Hospital and Health Services currently operates 209 beds. LaPorte Hospital was constructed in 1972 and was substantially expanded and/or renovated in 1984 and 1988. LaPorte Hospital currently comprises 331,000 square feet. LaPorte Hospital also leases or owns various buildings in LaPorte to accommodate administrative offices, storage and parking. In 1993, a new facility was built to house the LaPorte Hospital Community Health Center, which was expanded in 1999 to house the LaPorte County Dental Clinic. Both provide services to economically disadvantaged citizens in the service area. Outpatient and ambulatory care services are provided at LaPorte Hospital. LaPorte Regional Physician Network, Inc. owns physician offices in LaPorte, Knox, Rolling Prairie and Walkerton, Indiana. LaPorte also leases space in LaPorte and Michigan City to the VNA of LaPorte County. In January 2000, LaPorte acquired a 20,500 square foot medical office complex for physician offices and health-related services. In June 2005, LaPorte completed renovation of a storage facility for its new outpatient rehabilitation and wellness center.

THE OBLIGATED GROUP AFFILIATES

Certain affiliates of Clarian Health have been designated by Clarian Health pursuant to the terms of the Master Indenture as "*Obligated Group Affiliates*." While the Obligated Group Affiliates are not Members of the Obligated Group and are not liable for payment of the Obligations, the Master Indenture requires that each Obligated Group Affiliate be controlled by a Member of the Obligated Group (through corporate control or pursuant to contract) to assure compliance by the Obligated Group Affiliates with the covenants contained in the Master Indenture. Each Obligated Group Affiliate is required to pay, loan, or otherwise transfer to the Members of the Obligated Group such amounts as are necessary to pay duly and punctually the principal of and premium, if any, interest and any other amount payable on any Outstanding Obligation that was made available to such Obligated Group Affiliate, and such amounts that are otherwise necessary to enable each Member to pay the principal and premium of the Obligations. The Obligated Group Affiliates as of the date of the issuance of the Bonds are:

Emergency Medical Group, Inc. employs 64 emergency medicine physicians who provide services to Methodist Hospital's emergency room and to the emergency rooms of other affiliated and non-affiliated hospitals. Emergency Medical Group, Inc. also employs nurse practitioners and physician assistants. Methodist Medical Group, Inc. is the sole corporate member of Emergency Medical Group, Inc.

Goshen Health System, Inc. is the sole corporate member of ***Goshen Hospital Association, Inc. d/b/a Goshen General Hospital***, an acute care community hospital located in Goshen, Indiana, approximately 150 miles northeast of Indianapolis. Goshen General Hospital currently operates 116 beds. Goshen General Hospital was constructed in 1953, with additional space and other building renovations completed in 1964, 1968, 1974, and 1981, with total space of approximately 230,000 square feet. In 1994, a majority of the hospital facilities was renovated and updated and a major expansion was completed. In 1996, a four story building totaling 25,000 square feet adjacent to the hospital's campus was purchased to house outpatient clinical and administrative functions. A 25,000 square foot building addition was completed in 2000 to house expanded MRI capabilities and an expanded outpatient oncology program, including radiation and chemotherapy services. It is anticipated that in early 2007, additions totaling 45,400 square feet will be completed which will more than double the available patient care spaces in the emergency department, intensive care unit and surgical suites, and create a new entrance, lobby and pre-admission testing area. Goshen Health System, Inc. and its subsidiaries own or lease space for its home medical business and physician clinics at 20 locations in Goshen, Elkhart, Nappanee, Syracuse, New Paris, Ligonier, LaGrange, and Middlebury, Indiana. Goshen Health System, Inc. also operates the PrimeCare Physician Network division, which consists of 34 physicians. Clarian Health became the sole corporate member of Goshen Health System, Inc. on April 1, 2000.

Methodist Medical Group, Inc. provides quality, accessible and cost-effective physician medical services directly to the community through a subsidiary, Methodist Medical Group Physicians, Inc., and through various contracts with specialty groups affiliated with Methodist Specialty Physicians, LLC. Methodist Medical Group, Inc. assumes the insurance risk for approximately 73,000 members of an affiliated health maintenance organization ("*HMO*"), M Plan, Inc. See "RELATED ENTITIES AND OTHER AFFILIATIONS" below. Methodist Medical Group, Inc. also provides management services to the physician practices operated by Methodist Medical Group Physicians, Inc. Clarian Health is the sole corporate member of Methodist Medical Group, Inc.

Methodist Medical Group Physicians, Inc. (formerly Indiana Medical Network, Inc.) employs 83 primary care physicians and operates related practices throughout central Indiana, consisting of family practice physicians, internal medicine physicians, pediatricians and OB/GYN physicians. Methodist Medical Group, Inc. is the sole corporate member of Methodist Medical Group Physicians, Inc.

Methodist Occupational Health Centers, Inc. provides occupational health care services for the diagnosis and treatment of work-related injuries and illnesses and related services at seven locations in the Indianapolis metropolitan area and in LaPorte and Goshen. Clarian Health is the sole corporate member of Methodist Occupational Health Centers, Inc.

MH Healthcare, Inc. and another unrelated local hospital are corporate members of the Rehabilitation Hospital of Indiana, Inc. and have the right to designate an equal number of members to its board of directors. The Rehabilitation Hospital of Indiana, Inc. owns and operates a 110 bed long-term rehabilitation care hospital in Indianapolis. Methodist Medical Group, Inc. is the sole corporate member of MH Healthcare, Inc.

RELATED ENTITIES AND OTHER AFFILIATIONS

Foundations

Methodist Health Foundation, Inc. Methodist Health Foundation, Inc. is a nonprofit corporation organized in 1961. Methodist Health Foundation, Inc. is not controlled by Clarian Health. Methodist Health Foundation is an educational and charitable corporation established to aid and support medical education, medical research and other donor-specified programs at Methodist Hospital. Methodist Health Foundation's assets at December 31, 2005 were approximately $103.2 million. Recent major donations by the Methodist Health Foundation, Inc. to Methodist Hospital include $4.6 million in 2005 and $3.2 million in 2004.

Riley Children's Foundation. Riley Children's Foundation is a nonprofit corporation organized in 1921. Riley Children's Foundation is not controlled by Clarian Health. Riley Children's Foundation was founded to honor the memory of the poet James Whitcomb Riley by caring for the critically ill children of Indiana. This mission is accomplished through support of Riley Hospital, Riley Camp for Children with Disabilities and the Riley Museum. Recent major donations by the Riley Children's Foundation to Riley Hospital include $12.4 million in 2005 and $2.4 million in 2004.

The LaPorte Hospital Foundation, Inc. The LaPorte Hospital Foundation, Inc. is a nonprofit corporation whose sole corporate member is LaPorte. The LaPorte Hospital Foundation is a community organization designed to enhance a sense of ownership and participation in the evolution of LaPorte Hospital through fund raising events used to provide scholarships to students in healthcare-related fields, to serve low-income members of the community, to purchase equipment for the hospital and to support a variety of hospital programs. The LaPorte Hospital Foundation's assets at December 31, 2005 were approximately $6.54 million. Recent major donations by the LaPorte Hospital Foundation, Inc. to LaPorte Hospital include approximately $210,000 in 2005 and $1.68 million in 2004.

Related Entities

The following related and affiliated entities are not Members of the Obligated Group and have no obligation to make payments on the Obligations.

Bedford Regional Medical Center. Clarian Health is the sole corporate member of Bedford Regional Medical Center, Inc., a 25 bed critical access hospital in Bedford, Indiana, approximately 75 miles south of Indianapolis. Bedford Regional Medical Center was constructed in 1970. A surgery addition was added to the facility in 1985 and a multi-story outpatient facility housing physician offices was completed in 2002. The current facility comprises 149,029 square feet, which includes the hospital, clinic areas and office space for over 20 physicians employed by the hospital.

Center for Occupational Health, Inc. provides occupational health care services for the diagnosis and treatment of work-related injuries and illnesses and related services in Terre Haute, Indiana. Methodist Occupational Health Centers, Inc. and Union Hospital, Inc. are the corporate members of the Center for Occupational Health, Inc.

CH Assurance, Ltd., was organized and began operations during 2002 as a wholly owned captive insurance company of Clarian Health domiciled in the Cayman Islands. Subsidiaries and affiliates of Clarian Health participate in a medical professional and general liability program of insurance coverage, which is offered by the fronting carrier and reinsured by CH Assurance, Ltd.

Clarian Health Risk Retention Group, Inc. *("CHRRG"),* is a South Carolina corporation, established in June 2004, under the Federal Risk Retention Group Act. CHRRG's majority owner is Clarian Health, but all insureds, including private physician groups and risk purchasing groups, own shares. CHRRG is authorized to write professional and general liability coverage in the State of Indiana. CHRRG currently writes coverage for 9 acute and subacute hospitals, as well as approximately 2,000 physicians and ancillary health providers. CHRRG's liabilities are 100% ceded to the reinsurer, CH Assurance, Ltd.

Clarian Health North, L.L.C., is a limited liability company organized to construct and operate Clarian North, which is located in a suburban area north of Indianapolis in adjoining Hamilton County, Indiana. Clarian Health owns sixty-four percent (64%) of the membership interests of Clarian North LLC. Physician and physician group investors own the remaining thirty-six percent (36%). Clarian North opened for business in December 2005.

Clarian North is a 425,000 square foot hospital facility located on land owned by Clarian Health and leased to Clarian North LLC. Clarian North LLC entered into a real estate development agreement with Clarian Health pursuant to which Clarian Health has overseen and managed development of the Clarian North campus and construction of the Clarian North building. Clarian North has 182 inpatient beds, including a 110 bed medical-surgical unit. One of Clarian North LLC's priorities is the establishment of a Women's Health Program that focuses on obstetrics and breast health, including a variety of diagnostic and treatment options. Clarian North LLC also provides a comprehensive pediatric program that complements the services provided at Riley Hospital. Clarian North has an emergency department with both adult and pediatric coverage that provides emergency, urgent and after-hours care. Clarian North also focuses on certain surgical subspecialties including minimally invasive general surgeries, urology, orthopedics, otolaryngology, and gynecology. Clarian North LLC adopted a charity care policy similar to that adopted by Clarian Health.

Clarian Health North Medical Office Building, L.L.C. ("*North MOB*"), is a limited liability company organized to own, construct and operate a medical office building adjacent to Clarian North. The office building is constructed on real property that is owned by Clarian Health. The real estate is leased to Clarian North LLC, and then subleased to North MOB by Clarian North LLC. Clarian North LLC is the managing member of North MOB. The office building contains 144,000 square feet of leaseable office space and is at full occupancy.

Clarian Health West, L.L.C., is a limited liability company organized to construct and operate Clarian West, which is located in a suburban area west of Indianapolis in adjoining Hendricks County, Indiana. Clarian Health owns eighty percent (80%) of the membership interests of Clarian West LLC. Physician and physician group investors own the remaining twenty percent (20%). Clarian West opened for business in December 2004.

Clarian West is a 320,000 square foot hospital facility located on land owned by Clarian Health and leased to Clarian West LLC. Clarian West LLC entered into a real estate development agreement with Clarian Health pursuant to which Clarian Health provided oversight and managed the development of the Clarian West campus and construction of the Clarian West building. Clarian West currently operates 97 inpatient beds, including two medical-surgical units totaling 76 beds and 12 labor-delivery-recovery-post partum (LDRP) rooms. Expansion is currently underway for 3 operating rooms, 1 LDRP room and 3 post partum rooms. Services provided include a Women's Center, an intensive care unit, an emergency department and a cancer center. Clarian West LLC adopted a charity care policy similar to that adopted by Clarian Health. In July 2006, Clarian West LLC acquired a 50% interest in the surgery operations of Eagle Highlands outpatient center, Eagle Highlands Surgery Center, LLC.

Clarian Health West Medical Office Building, L.L.C. ("*West MOB*"), is a limited liability company organized to own, construct and operate a medical office building adjacent to Clarian West. The office building is located on real property that is owned by Clarian Health. The real estate is leased to Clarian West LLC, and then subleased to West MOB by Clarian West LLC. Clarian West LLC is the managing member of West MOB. The office building includes 110,000 square feet of leaseable office space. West MOB has signed leases for 109,000 square feet of the leaseable space (97%).

LaPorte Regional Physician Network, Inc. *("LRPN"),* was organized to provide residents of LaPorte County access to high quality primary care and specialty physicians. LRPN currently employs 25 physicians, 11 nurse practitioners and various support staff at 14 locations. LaPorte is the sole member of LRPN.

Indiana Lakes Managed Care Organization, LLC, operates as a physician hospital organization ("*PHO*") and contracts with HMOs and PPOs for the benefit of the provider network. Goshen Hospital Association, Inc. has a 50% ownership interest in Indiana Lakes Managed Care Organization, LLC.

Midwest Proton Radiotherapy, Inc. Clarian Health and an affiliate of Indiana University jointly own, through 50% membership interests, Midwest Proton Radiotherapy, Inc. ("*MPRI*"), a non-profit, diagnostic, and treatment center for cancer located near the campus of Indiana University in Bloomington, Indiana. MPRI is in its initial stage of operation and is in the process of applying to the Food and Drug Administration for the use of its second radiologic equipment device to be used in the treatment of cancer tumors through the use of proton beams.

MD Wise, Inc. Clarian Health and Wishard Hospital, owned by Health and Hospital Corporation of Marion County, jointly own, through 50% membership interests, MD Wise, Inc., a Medicaid managed care provider providing enrollees with health care services through the managed care networks of participating Indianapolis hospitals. There are approximately 122,000 members in MD Wise, Inc., of which approximately 27,800 are enrollees in the managed care network of Clarian Health. In July 2006, MD Wise, Inc. and two other organizations were awarded contracts, effective January 2007, to provide the managed care services to substantially all enrollees in the Indiana Medicaid program.

The Beltway Surgery Center, LLC, assumed the outpatient surgery operations previously provided by Clarian Health at an outpatient center located on the north side of Indianapolis in August 1999. Clarian Health has a 50% ownership interest in The Beltway Surgery Center, LLC. The remaining 50% is owned by physicians who practice at the center.

The HealthCare Group, LLC. Until December 1998, Clarian Health was the sole shareholder of M Plan, Inc., the operator of one of the largest HMOs operating in the State of Indiana. In December 1998, Clarian Health entered into an Agreement and Plan of Reorganization with several regional health systems in Indiana to combine their managed care lines of business in The HealthCare Group, LLC. In exchange for the transfer of all of its stock in M Plan, Inc. to The HealthCare Group, LLC, Clarian Health received an approximate 87% ownership interest in The HealthCare Group, LLC. The other owners of The HealthCare Group include HealthPoint, LLC, VHA Tri-State Health Plans, Inc. and affiliates of Community Hospitals of Indianapolis, Inc., and Deaconess Hospital, Inc. There are approximately 170,000 members in M Plan, Inc. of which approximately 73,000 are enrolled in the managed care network of Clarian Health. The HealthCare Group, LLC also operates two preferred provider organizations ("*PPOs*") in Central Indiana, Encore Health Network and Signature Care. Negotiations are ongoing for the sale of The HealthCare Group, LLC to an insurance company.

Hospital Affiliations

Howard Regional Health System, a 150 bed acute care hospital with a 50 bed rehabilitation hospital in Kokomo, Indiana, approximately 50 miles north of Indianapolis, has entered into a five-year Development Affiliation Agreement with Clarian Health that expires in 2010.

Tipton Memorial County Hospital, a 25 bed critical access hospital in Tipton, Indiana, approximately 45 miles north of Indianapolis, is managed by Clarian Health pursuant to a management agreement that expires, unless terminated earlier, in 2008.

Decatur County Memorial Hospital, a 71 bed acute care community hospital in Greensburg, Indiana, approximately 54 miles southeast of Indianapolis, had a five-year Clinical Affiliation and Consulting Agreement with Clarian Health that expired in July 2006.

Physician Affiliations

Clarian Health maintains a variety of relationships with physician groups and organizations throughout the State of Indiana. Significant among these relationships are the following:

American Health Network of Indiana, Inc. In March 2000, Clarian Health entered into a loan agreement with American Health Network of Indiana, Inc. ("*AHN*"), a primary care physician corporation that employs 112 physicians practicing in central Indiana. AHN is not controlled by Clarian Health. Clarian Health agreed to make a $10 million line of credit available to AHN, of which $2.8 million is outstanding at December 31, 2005. AHN's parent corporation, American Health Network, Inc., and its other subsidiary corporations, have guaranteed AHN's obligations under the loan agreement. Pursuant to the loan agreement, Clarian Health obtained the right to designate two of five directors to AHN's Board of Directors and to review certain operating decisions of AHN.

IU Health Care, Inc. d/b/a IU Medical Group - Primary Care ("*IUMG-PC*") is a nonprofit, tax-exempt corporation that employs approximately 145 internal medicine, pediatric, and family practice physicians that serve approximately 110,000 patients at 19 ambulatory sites in Marion County. IUMG-PC is controlled by Wishard Hospital and Indiana University School of Medicine. IUMG-PC owns IU Health Plan, Inc. ("*IUHP*"), an HMO licensed in Indiana and participates as a provider network of M Plan, Inc. (the "*IU Network*") and MD Wise, Inc. IUMG-PC contracts with various specialists to provide health services to its members, most of whom are members of the IU Medical Group – Specialty Care described below. Certain adult clinics operated by these specialists are hospital-based clinics located at the Methodist/IU/Riley campuses. Clarian Health provided financial subsidies to IUMG-PC totaling $1.1 million in 2005 and $1.1 million in 2004 and 2003.

Indiana University Associates, Inc. d/b/a IU Medical Group – Specialty Care ("*IUMG-SC*") is a professional organization of 750 physician specialists who serve as faculty for the Indiana University School of Medicine, operate private practices and admit patients to Clarian Health. Some of these physicians also serve as medical directors for certain Clarian Health clinical departments and/or participate in management and other operating committees of Clarian Health. Many of these specialists' practices are on or near the Methodist/IU/Riley campuses. Because of the close proximity of the practices, Clarian Health coordinates patient registration and ambulatory services with IUMG-SC to enhance patient convenience and multi-disciplinary care. IUMG-SC provides Clarian Health consultation on significant matters such as clinical consolidation.

Methodist Specialty Physicians, LLC ("*MSP*") is an independent practice association of over 302 physician specialists representing all major specialties who operate private practices and admit patients to Clarian Health. Some of these physicians also serve as medical directors for certain Clarian Health clinical departments and/or participate in management and other operating committees of Clarian Health. MSP provides Clarian Health consultation on significant matters such as a clinical consolidation.

Arnett Clinic LLC. In July 2006, Clarian Health entered into a loan agreement with Arnett Clinic LLC, a multi-specialty clinic that employs approximately 140 physicians in Lafayette, Indiana (with annual revenues in excess of $200 million). Proceeds of the loan aggregating $10 million are to be used to construct an ambulatory surgery center. See "Potential Affiliations/Transactions."

Potential Affiliations/Transactions

Clarian Health and Arnett Clinic, LLC and its affiliates (*"Arnett"*) have entered into a Definitive Agreement and formed Arnett Clarian Health System, LLC to jointly own and operate an acute care hospital in Lafayette, Indiana, and other health care facilities (the "*Clarian Arnett Medical Center*"). Subject to a number of terms and conditions, Arnett will exchange 100% of its interest in various outpatient provider sites and other health care facilities in Lafayette and surrounding communities for a 40% interest in the Clarian Arnett Medical Center. The estimated cost of the Clarian Arnett Medical Center is $170 million. Construction of the hospital commenced in August 2006 with an expected completion date in September 2008.

Clarian Health and Union Hospital Inc ("*Union*") have entered into a nonbinding letter of intent regarding the affiliation of Clarian Health and Union. If such an affiliation goes forward, Clarian Health would become the sole corporate member of Union, a private Indiana nonprofit corporation, which operates a 379 bed acute care hospital located in Terre Haute, Indiana, approximately 85 miles southwest of Indianapolis. Clarian Health and Union would retain a separate credit structure until such time as the Obligated Group participates in a potential financing for the construction of a replacement hospital facility in Terre Haute.

Clarian Health has also entered into a nonbinding letter of intent with a developer of nursing homes and long-term acute care hospitals (LTACH) to develop a LTACH on the Methodist Hospital campus. If such an agreement is reached, Clarian Health will jointly own the LTACH with this company. It is anticipated that certain physicians will be offered an opportunity to purchase a minority position in the LTACH company.

Clarian Health continues to develop its statewide strategy for hospitals and ambulatory health care facilities. Clarian Health has a number of agreements in place to explore potential collaborations with health care facilities and others within the state.

Negotiations are ongoing for the sale of The HealthCare Group, LLC to an insurance company.

GOVERNANCE AND MANAGEMENT

Clarian Health

Corporate Members. As described above, the Articles of Incorporation of Clarian Health provide for two classes of members – the Methodist Class and the University Class. The Methodist Class consists of the members of Methodist Health Group, Inc., which includes individuals who are nominated by the North and South Annual Conferences of the United Methodist Church. The University Class consists of those persons serving from time to time as The Trustees of Indiana University (in their capacities as individuals and not as The Trustees of Indiana University). In accordance with Clarian Health's Articles of Incorporation, certain matters require the approval of a designated class of member before action can be taken by Clarian Health. Matters requiring the approval of the Methodist Class include, among other matters, (1) any sale, lease, transfer or other alienation of the real property associated with Methodist Hospital (which is owned by Methodist Health Group, Inc.); (2) any sale or other alienation of all or substantially all of the assets of Clarian Health; (3) amendment of Clarian Health's Articles of Incorporation; (4) dissolution of Clarian Health; and (5) any revision to certain principles and policies underlying the Consolidation Transactions. Matters requiring the approval of the University Class include, among other matters, (1) any sale, lease, transfer or other alienation of the real property associated with University Hospital or Riley Hospital (which is owned by The Trustees of Indiana University); (2) the matters described in (2) through (5) above with respect to the approval of the Methodist Class; (3) any change in the agreement to provide support to the Indiana University School of Medicine (see "SERVICES—Medical Education and Research"); (4) any proposal by Clarian Health that conflicts with the commitment of Clarian Health to make all patients available for medical education unless otherwise requested by the patient or his/her family; and (5) any proposed action regarding the operation of Indiana University Hospital or Riley Hospital that would conflict with certain requirements specified in a resolution adopted by The Trustees of Indiana University that delegated to Clarian Health the authority to operate and manage Indiana University Hospital and Riley Hospital.

As set forth in the Consolidation Agreement, neither Methodist Health Group, Inc. nor The Trustees of Indiana University will be obligated to pay or guarantee any debt or obligation of Clarian Health, whether the debt or obligation arose prior to or otherwise relates to facts and circumstances that preceded the Consolidation Transactions or otherwise. None of the State of Indiana, The Trustees of Indiana University, Methodist Health Group, Inc. or the United Methodist Church (or any of its Conferences, Divisions, Boards or other operating or affiliated units) or any trustee, agent, attorney, director, member, officer or employee of any of these entities shall in any event be liable, whether pecuniarily or otherwise, for any undertaking or agreement of any kind whatsoever that may be undertaken by Clarian Health.

Board of Directors. Clarian Health's Board of Directors consists of 13 directors. Eight at-large directors are jointly elected by the affirmative vote of both member classes. One director is elected by the University Class, and one director is elected by the Methodist Class following nomination by the Leadership Council of Methodist

Medical Group, Inc. Additionally, the Dean of the Indiana University School of Medicine, the Bishop of the Indiana Area of the United Methodist Church or his designee and the President and Chief Executive Officer of Clarian Health are all ex officio directors. The current Board of Directors consists of the following individuals:

Name	Occupation	Member Since	Term Expires
Hon. Sarah Evans Barker	Chief Judge, U.S. District Court	1996	2007
Myles Brand, Ph.D.	President, National Collegiate Athletic Association	1996	2009
Thomas W. Chapman	President and Chief Executive Officer, HSC Foundation, Washington, D.C.	1996	2010
Stephen L. Ferguson	Chairman and Executive Vice President, Cook Group Incorporated	2004	2008
Charles E. Golden	Retired Executive Vice President and Chief Financial Officer, Eli Lilly and Company	1996	2007
David W. Goodrich	Retired Executive Vice President and Chief Executive Officer, Central Indiana Partnership, Inc.	1996	2008
Adam W. Herbert, Ph.D.	President, Indiana University	2003	2008
V. William Hunt*	Hunt C.P., LLC	2002	2009
James E. Lingeman, M.D.	Physician, Methodist Urology	2004	2008
Angela Barron McBride, Ph.D.	Professor and Dean Emerita, Indiana University School of Nursing	2004	2008
Ex Officio Members			
Craig D. Brater, M.D.	Dean of the Indiana University School of Medicine, Director of Indiana University Medical Center	2000	
Daniel F. Evans, Jr.	President and Chief Executive Officer, Clarian Health Partners, Inc.	2003	
Bishop Michael J. Coyner	Bishop, Indiana Area United Methodist Church	2005	

* Chairman of the Board

Management. The principal senior management executives of Clarian Health are as follows:

DANIEL F. EVANS, JR., President and Chief Executive Officer of Clarian Health. Mr. Evans was named President and Chief Executive Officer in November 2002. He previously was a partner at the law firm of Baker & Daniels in Indianapolis. He has served on the Board of Directors of Clarian Health since its inception in 1997, and served as its Chairman immediately prior to his appointment as Chief Executive Officer. Mr. Evans' other board memberships have included the following: Chairman, Federal Housing Finance Board (1990-93); Chairman, Board of Directors, Federal Home Loan Bank of Indianapolis (1987-90); Chairman, Board of Directors, Methodist Hospital of Indiana, Inc. (1996-1997); Member, Methodist Health Group, Inc. (1996-present); Member, Methodist Medical Group (1996-2006) (Chairman, 1996-2000); Chairman, Clarian North Board of Managers (2004-present); Chairman, Clarian West Board of Managers (2003-present); Indiana Hospital & Health Association; Indiana Public Health Institute; Indiana Health Information Exchange; Central Indiana Corporate Partnership; BioCrossroads; and numerous community organizations.

MARVIN G. PEMBER, Executive Vice President and Chief Financial Officer of Clarian Health. Mr. Pember joined Clarian Health in June 1999. Most of his career has been spent as an executive in major medical centers and health care systems, with prior experience in a professional service and payor organization. During his tenure, he has been involved in numerous strategic development efforts, including new hospital development, ambulatory care development, information technology planning, and multiple mergers and acquisitions.

SAMUEL L. ODLE, Executive Vice President and Chief Operating Officer of Clarian Health. Mr. Odle serves as the Immediate Past Chairman of the American College of Healthcare Executives (ACHE), an international professional society of 30,000 healthcare executives. Mr. Odle served as an ACHE Governor from 2001 to 2004. Prior to that, he was the ACHE Regent-at-Large for District 4 from 1997 to 2001. Mr. Odle is a member of the board for the Indianapolis Department of Waterworks, ITT Educational Services, Inc., the Jordan Foundation, Regions Bank, Crossroads of America Boy Scouts Council, and an advisor to the Indiana Black and Minority Health Coalition Advisory Committee, and serves on numerous other committees and community organizations.

ORA PESCOVITZ, M.D., President and Chief Executive Officer of Riley Hospital. Dr. Pescovitz is also Executive Associate Dean for Research at Indiana University School of Medicine. Dr. Pescovitz has served as president of the Society for Pediatric Research, the nation's largest pediatric research organization; she has also served as president of the Lawson Wilkins Pediatric Endocrine Society, chair of the March of Dimes Grants Review Committee, a member of the Ad-Hoc Group for Medical Research Funding and has been on six journal editorial boards and authored numerous manuscripts and a medical textbook. She has served on numerous committees of the Endocrine Society and was chair of the 2002 Annual Meeting Steering Committee. Awards include a Research Career Development Award from the NIH, Indiana University School of Medicine's highest Teaching Award, the Distinguished Alumni Award from Northwestern's Feinberg School of Medicine, and recognition as one of the nation's Top Doctors. As a physician, Dr. Pescovitz continues to see young patients in her specialty of endocrinology.

RICHARD GRAFFIS, M.D., Executive Vice President and Chief Medical Officer of Clarian Health. Prior to joining Clarian Health, Dr. Graffis was engaged in a private medical practice, which he continues on a limited basis. He completed his internship and residency at Methodist Hospital and is board certified in surgery. He is a member of the American College of Surgeons, American Medical Association, the Indiana State Medical Society, and the Western Surgical Association. He has held various positions on the Methodist Hospital and Clarian Health medical staff and has served on numerous committees.

NORMAN G. TABLER, JR., Senior Vice President and General Counsel of Clarian Health. Before joining Clarian Health, Mr. Tabler was a partner in the Indianapolis office of the law firm of Baker & Daniels, where he directed the health care practice. Mr. Tabler serves on the boards of a number of community organizations, including WFYI Public Television & Radio, the Indianapolis Art Center, the Skyline Club, and the Indiana Repertory Theatre, Inc. He is a member of the Indianapolis, Indiana State, and American Bar Associations, and the American Health Lawyers Association.

Regional Hospitals

LaPorte Regional Health System, Inc. Clarian Health is the sole corporate member of LaPorte Regional Health System, Inc. Pursuant to the Integration Definitive Agreement relating to LaPorte (the "*LaPorte Agreement*"), Clarian Health has the right to appoint three directors and approve a slate of thirteen directors from LaPorte's service area nominated by the nominating committee of LaPorte's Board of Directors. The LaPorte Agreement also grants Clarian Health limited approval rights for matters relating to LaPorte, including (1) amendments to LaPorte's articles of incorporation and bylaws; (2) affiliations, mergers, consolidations, and joint ventures and certain asset sales; (3) joint approval/retention of chief executive officer; (4) ratification of capital and operating budgets and strategic plans; and (5) indebtedness or guarantees in excess of 5% of LaPorte's book value.

The LaPorte Agreement also requires LaPorte to maintain certain performance standards, including maintaining a debt service coverage ratio of 2:1 and a total margin equal to 3% of total operating revenues. If such standards are not met or waived by Clarian Health, subject to certain conditions and limitations, Clarian Health will obtain additional limited powers, including (1) appointment and removal of the board of directors; (2) appointment and retention of the chief executive officer; (3) adoption of capital and operating budgets and strategic plans; and (4) approval of certain asset transfers.

Bedford Regional Medical Center. Clarian Health is the sole corporate member of Bedford Regional Medical Center, Inc. and appoints three of the twelve member Board of Directors. The remaining nine directors are from Bedford's service area.

Goshen Health System, Inc. Clarian Health is the sole corporate member of Goshen Health System, Inc. ("*GHS*") which is the sole corporate member of Goshen Hospital Association, Inc. d/b/a Goshen General Hospital ("*GHA*," and, together with GHS, "*Goshen*"). Pursuant to the Integration Definitive Agreement with GHS (the "*Goshen Agreement*"), Clarian Health has the right to appoint two directors and approve a slate of twelve directors for GHS. GHS has the power to elect all of the directors of GHA, except for the Vice President of the medical staff, who serves *ex officio*. The President of GHS also serves as an *ex officio* member of the Board of Directors of GHS. The Goshen Agreement also grants Clarian Health the right to ratify the appointment of the President/Chief Executive Officer of GHS and grants Clarian Health limited approval rights for matters relating to GHS, GHA and certain other affiliated companies (collectively, the "*Goshen Companies*"), including (1) amendments to organizational documents; (2) mergers, consolidations, dissolutions, acquisitions, joint ventures and certain asset sales; (3) ratification of capital and operating budgets, strategic plans; and (4) indebtedness or guarantees in excess of 5% of consolidated net book value.

The Goshen Agreement also requires the Goshen Companies to maintain certain performance standards, including maintaining a debt service coverage ratio of 2:1 and a total margin equal to 3% of total operating revenues. If such standards are not met by the Goshen Companies or waived by Clarian Health, subject to certain conditions and limitations, Clarian Health will obtain additional limited powers, including (1) removal of members of the board of directors of GHS; (2) removal of the President/Chief Executive Officer of GHS; (3) amendment of the organizational documents of any of the Goshen Companies; (4) dissolution, merger or transfer of assets of any of the Goshen Companies; and (5) authorization of affiliations of any of the Goshen Companies.

The Goshen Agreement provides that if another entity assumes a majority membership interest in Clarian Health or substantially all of Clarian Health's assets are sold or leased to another entity, Clarian Health is dissolved or certain other events occur, GHS may terminate the Goshen Agreement.

For additional information regarding LaPorte and Goshen Health System, Inc., see "SECURITY FOR THE BONDS—The Master Indenture—*Obligations*" in the Official Statement of which this Appendix A is a part.

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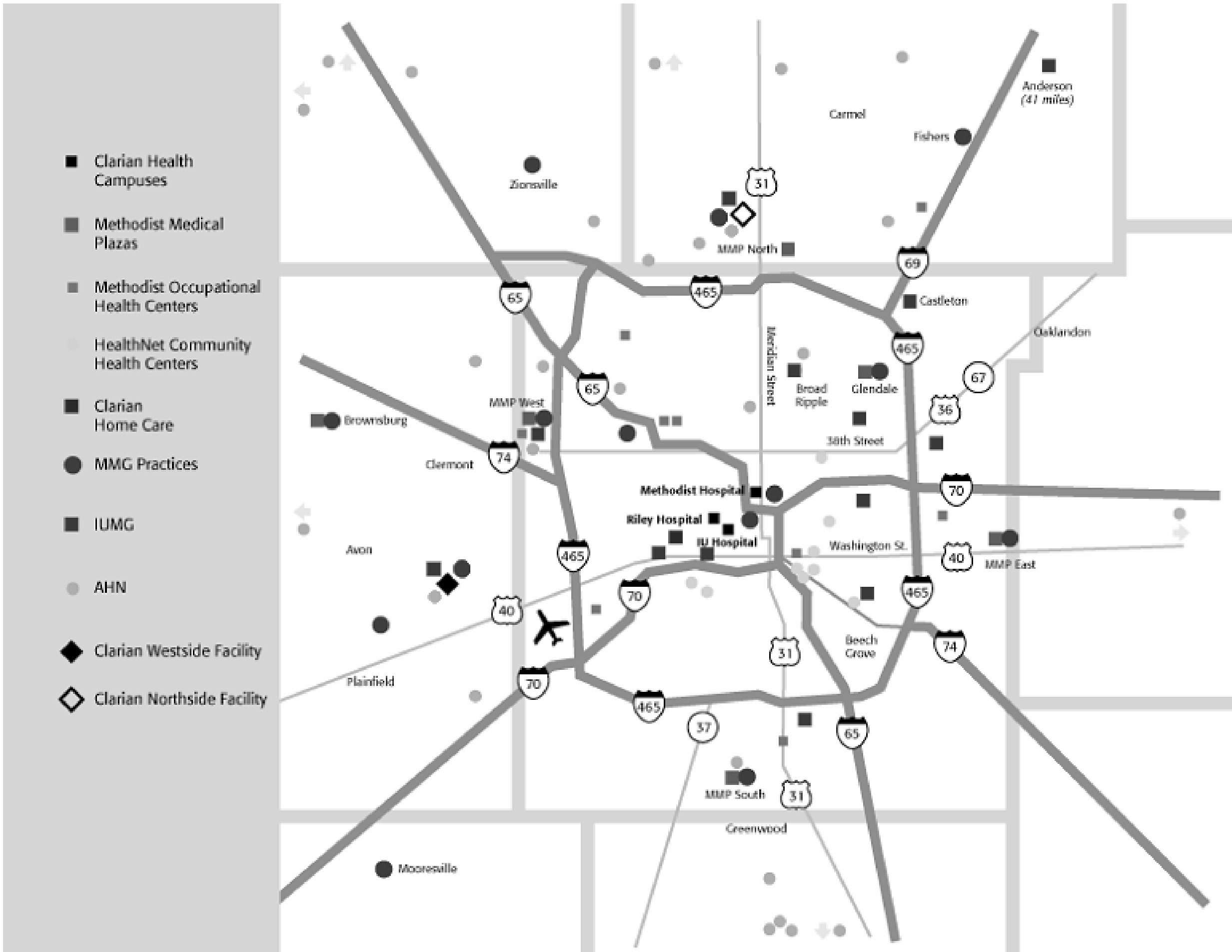
MAP OF CLARIAN HEALTH FACILITIES IN METROPOLITAN INDIANAPOLIS



SERVICE AREAS

Methodist/IU/Riley Hospitals Service Area

Definition of Primary Service Area. The combined primary service area of Methodist/IU/Riley is defined as the lowest number of contiguous counties from which the hospital draws at least 80% of its inpatients. For 2005, this is an area of 26 counties in central Indiana, contributing 80.7% of inpatient discharges. Patient origin data for Methodist/IU/Riley is provided in the table below:

Service Area	Percent of Methodist/IU/Riley Discharges
Primary	80.7%
Remainder of State	15.1
Out of State	4.2
Total	100.0%

Source: Clarian Health inpatient admission data.

Demographics.

Primary Service Area Demographics

	2005	2010	% of Change
Total Population	2,822,803	2,933,751	3.93%
Population <18 years	713,133	724,567	1.60
Population +65 years	333,157	370,215	11.12
Households	1,110,724	1,158,987	4.35
Average Household Income	$ 61,745	$ 69,583	12.69%

Source: Claritas, Inc. 2005 Estimates

Other Acute Care Hospital Facilities in the Primary Service Area. Comparative combined data for Methodist/IU/Riley and other acute care hospital facilities located within the Methodist/IU/Riley primary service area is provided in the following table. All data excludes skilled nursing and newborn patients. Because Clarian Health and another health care provider jointly own a rehabilitation hospital, rehabilitation data also is excluded for comparison purposes.

Market Share

Fiscal Year Ended in 2004

Hospital	Location of Hospital	Beds*	Average Daily Census*	Percent Occupied	Discharges**	Market Share
Methodist/IU/Riley	Indianapolis	1,297	894	69%	53,037	32.0%
St. Vincent	Indianapolis	766	573	75	40,367	24.3
Heart Center of Indiana	Indianapolis	60	42	70	5,013	3.0
St. Vincent Subtotal	Indianapolis	826	615	74	45,380	27.4
Community Hospitals (East, North and South)	Indianapolis	582	320	55	29,476	17.8
Indiana Heart Hospital	Indianapolis	56	29	52	3,472	2.1
Community Subtotal	Indianapolis	638	349	55	32,948	19.9
St. Francis	Indianapolis	390	257	66	19,375	11.7
Wishard Health	Indianapolis	294	187	64	15,067	9.1
Total (or Avg.)		3,445	2,302	67%	165,807	100.0%

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* Source: Fiscal year 2003 Medicare cost reports, except for Heart Center of Indiana (2004 cost report).
** Source: Indiana Health and Hospital Association, 2004.

Specialty Hospitals. An orthopedic specialty hospital owned by physicians opened in March 2005.

Service Areas for Regional Hospitals

LaPorte Regional Health System, Inc. The primary service area for LaPorte Hospital includes the City of LaPorte, Indiana, and contiguous areas of LaPorte County (except for the greater Michigan City area, which is served by a general hospital located in Michigan City) and the area surrounding Walkerton, Indiana in western St. Joseph County, Indiana. The secondary service area for LaPorte Hospital consists of the remainder of LaPorte County, the western townships of St. Joseph County and the northern townships of Starke County, Indiana. LaPorte

Hospital is the only acute care provider in its primary service area. Admissions for LaPorte Hospital comprise 66% of the total admissions originating from its primary service area and 11% of total admissions originating from its secondary service area.

Goshen Health System, Inc. The primary service area for Goshen Health System, Inc. is north central Indiana, comprising Goshen, Elkhart, Syracuse, Middlebury, Millersburg, Ligonier, Nappanee, Milford, New Paris and Cromwell, Indiana. The secondary service area for Goshen Health System, Inc. is Shipshewana, Bristol, Warsaw, Nappanee, Topeka, North Webster and Leesburg, Indiana. Admissions for Goshen Health System, Inc. comprise 82.2% of the total admissions originating from its core and primary service area and 12.2% of total admissions originating from its secondary service area.

Bedford Regional Medical Center, Inc. The primary service area for Bedford Regional Medical Center, Inc. is Bedford, Indiana, situated in Lawrence County, Indiana. The secondary service area for Bedford Regional Medical Center, Inc. is south central Indiana, comprising Orange, Martin and Jackson counties. Admissions for Bedford Medical Center, Inc. comprise 80.8% of the total admissions originating from its primary service area and 9.4% of total admissions originating from its secondary service area.

Clarian West Medical Center. The primary service area for Clarian West is western Marion County and eastern Hendricks County including Avon, Brownsburg and Plainfield, Indiana. Having only opened in December 2004, admission data is limited.

Clarian North Medical Center. The primary service area for Clarian North is northern Marion County, southern Hamilton County and eastern Boone County including Carmel, Fishers and Zionsville, Indiana. Clarian North opened in December 2005, and admission data is limited.

MEDICAL STAFF

Methodist/IU/Riley Medical Staff

Medical Staff Information. A patient may be admitted to Methodist/IU/Riley only upon the request of a member of its medical staff with admitting privileges. All members of Clarian Health's active medical staff are generally required to be certified by one or more boards of the American Board of Medical Specialties or one or more boards generally recognized by the American Medical Association, American Dental Association, or American Osteopathic Association. Many are on the medical staffs of and admit patients to other Indianapolis metropolitan hospitals as well. Clarian Health's future patient revenues are largely dependent on the extent to which members of its medical staff are actively engaged in their practices and choose to admit their patients to Methodist/IU/Riley rather than to competing hospitals. The following table provides information regarding the number of physicians on staff at Methodist/IU/Riley as of December 31 of the years indicated:

Methodist/IU/Riley Medical Staff

	Number of Physicians as of December 31		
Staff Status	**2003**	**2004**	**2005**
Active Staff	1,428	1,423	1,444
Resident	509	529	634
Other[1]	554	616	571
Total	2,491	2,568	2,649

Source: Clarian Health Management

[1] Other includes provisional and associate members with admitting and attending privileges and consulting physicians with no admitting privileges.

Areas of Specialty. Methodist/IU/Riley's medical staff practices in 32 specialties, which are divided into 65 subspecialty areas. The specialties of Methodist/IU/Riley's medical staff admitting patients, including newborns, to Methodist/IU/Riley, and the percent of total admissions per area of specialty during the 2005 calendar year, were as follows:

Profile of Admitting Physician Specialties at Methodist/IU/Riley

Specialty	**Active Status**	**Other Status**	**Total Members**	**Percent of Total Admissions**
Cardiology	65	20	85	6.4%
Cardiovascular Surgery	21	4	25	3.0
Family Practice	73	30	103	3.7
General Surgery	41	30	71	8.8
Internal Medicine	191	77	268	24.5
Neurology	37	13	50	1.5
Neurosurgery	22	8	30	5.1
Obstetrics/Gynecology	56	20	76	11.8
Orthopedic Surgery	59	38	97	5.9
Pediatrics	222	73	295	18.9
Psychiatry	28	12	40	1.8
Urology	30	21	51	3.7
Other	599	225	824	4.9
Totals	1,444	571	2,015	100.0%

Source: Clarian Health Management

Average Age of Medical Staff. As of August 7, 2006, the average age of the medical staff is 47.

SERVICES

Methodist/IU/Riley Services

Methodist/IU/Riley provides a full range of hospital services for adult and pediatric patients, including cardiac catheterization, critical care, emergency room, labor and delivery, laboratory, nuclear medicine, oncology, orthopedic care, outpatient care, psychiatric care, radiation therapy, radiology, rehabilitative therapy, and surgery. Specialty services provided by Methodist/IU/Riley include air ambulance, comprehensive adult cancer treatment, pediatric burn unit, Level One trauma center, neonatal care, pediatric cardiac treatment, pediatric cancer treatment, regional pediatric trauma center, specialized obstetrics, transitional care services and transplant services.

Clarian West Services

Clarian West provides a broad range of acute care and outpatient services for adult and pediatric patients, including intensive care, emergency, inpatient and ambulatory surgery, labor and delivery, radiation therapy, oncology and women's health services, including a breast care and research center.

Clarian North Services

Clarian North provides a broad range of acute care and outpatient services for adult and pediatric patients. Clarian North has dedicated pavilions for specialty surgery, women's health services and pediatric services. The pediatric services are supported by Riley Hospital at Clarian North.

LaPorte Regional Health System Services

LRHS provides a broad range of acute care, long-term care and outpatient care services for adult and pediatric patients, including intensive care, inpatient and ambulatory surgery, labor and delivery, radiation therapy, oncology, and women's health services. LaPorte Hospital also provides home care, hospice and family support services through its operating division, VNA of LaPorte County. LaPorte Hospital is also the sole corporate member of the LaPorte Regional Physician Network, Inc., which owns and operates primary care centers in small rural communities in the surrounding counties, manages and owns medical practices and provides management services at 14 locations throughout LaPorte County and St. Joseph County.

Goshen Health System, Inc. Services

Goshen Health System, Inc. is the sole corporate member of Goshen Hospital Association, Inc. d/b/a Goshen General Hospital in Goshen, Indiana, which provides a broad range of acute care and outpatient care services for adult and pediatric patients, including labor and delivery, level two emergency services, surgery, cardiac catheterization, nuclear medicine, rehabilitative therapy, oncology, intensive care, and lithotripsy. As of June 30, 2006, the medical staff at Goshen General Hospital consists of 235 staff members, including 146 active staff members and 89 other members. Goshen Health System provides a variety of ambulatory care services in Goshen and the surrounding communities through its home care and hospice programs, community health education services, and primary care physician practices employing 41 physicians. Goshen General Hospital established the first home care program in Elkhart County that provides skilled nursing and infusion therapy services. Goshen Health System provides primary care physician services, including family practice, pediatric, and internal medicine physicians. Goshen Health System also owns Park Home Medical Equipment, which provides durable medical equipment and oxygen services at two sites covering Goshen's service area. Goshen Health System, Inc. owns a 50% interest in Indiana Lakes Managed Care Organization LLC, which contracts with major HMO and PPO payors operating in Goshen's service area.

Bedford Regional Medical Center Services

Bedford Regional Medical Center, Inc. owns and operates a critical access hospital, that provides acute care and outpatient care services for adult and pediatric care patients, including intensive care, labor and delivery, oncology, and cardiopulmonary services. Bedford Regional Medical Center, Inc. also owns and operates a home health agency that provides home care, end of life support services and palliative care, and a physician clinic adjoining the hospital, which employs 20 physicians practicing in several specialties.

Medical Education and Research

Medical education is an important part of the Clarian Health System's overall mission, continuing the historical commitment of Methodist Hospital, Indiana University Hospital and Riley Hospital. All three hospitals currently serve as substantial training sites for residencies, fellowships, and medical, nursing and allied health continuing medical education. Approximately 1,200 members of the medical staff at Methodist/IU/Riley participate in education programs at Clarian Health facilities.

The faculty and medical staffs have historically valued research in the basic and clinical sciences, viewing such research as substantially complementing medical education. The Indiana University School of Medicine receives approximately $219.5 million annually in grant funding for research and education, and members of the Methodist/IU/Riley medical staff participate in this commitment to research and education. Clarian Health secured approximately $2.7 million in 2005 in grant funds for research, education and facility improvements.

OPERATING INFORMATION

Bed Complement

The following table provides certain information relating to the operating bed complement of the Clarian Health System's acute care hospital facilities (excluding nursery) as of June 30, 2006:

	Methodist/IU/Riley	Other System Hospitals[(1)]
Medical/Surgical	721	355
ICU/CCU	211	63
OB/Labor Delivery	44	30
Pediatrics	198	103
Psychiatric	49	23
Long-Term Care	--	55
High Risk Nursery	92	--
Totals	1,315	629

Source: Clarian Health Management

(1) Includes Clarian West, Clarian North, LaPorte Hospital, Goshen General Hospital and Bedford Regional Medical Center.

Managed Care

Commercial managed care enrollment in Indiana and the Indianapolis metropolitan market has continued to shift from HMO products to POS and PPO alternatives. POS and PPO enrollment increased 7.0% and 3.1%, respectively, from 2004 to 2005 as reported by the Indianapolis Business Journal; HMO enrollment for the same period was reported to decrease 3.4%. M Plan, Inc. has maintained its position as the State's largest HMO with enrollment of approximately 170,000 members for the year ended December 31, 2005.

In 2005, the State of Indiana completed a conversion of the State's Medicaid population to mandatory managed care, significantly increasing Medicaid HMO enrollment in the State. Effective January 1, 2007, the Indiana Family and Social Services Administration has chosen MD Wise, Inc. as one of three plans to provide services for all regions statewide. In June 2006, MD Wise, Inc.'s reported membership is 122,000 Hoosier Healthwise enrollees.

Pay-for-performance and consumer driven health plans have been introduced in the Indianapolis market on a limited basis and, to date, Clarian Health has performed optimally for any quality-based reimbursement. Clarian Health continues to offer broad accessibility to residents of Central Indiana and statewide through participation of all its downtown and suburban hospitals in virtually all major managed care plans.

Utilization and Operating Statistics

The following table provides certain information relating to utilization (excluding nursery) of Clarian Health System hospitals during the periods indicated:

	Year Ended December 31			Six-Month Period Ended June 30	
	2003	**2004**	**2005**	**2005**	**2006**
Number of Operating Beds	1,690	1,741	1,899	1,784	1,944
Patient Days	423,176	432,366	432,290	219,613	225,957
Admissions	70,139	70,722	73,854	37,031	39,771
Occupancy (Operating Beds)	68.6%	68.0%	62.4%	62.6%	66.4%
Average Length-of-Stay (Days)	6.0	6.1	5.9	5.9	5.7
Surgery Cases	60,485	59,490	68,756	34,229	34,098
Outpatient Visits	1,168,022	1,160,383	1,253,887	628,289	657,940
Emergency Room Visits	168,765	169,658	202,841	102,448	106,750
Radiologic Exams	538,676	713,594	760,215	378,081	391,389
Laboratory Exams	7,755,832	9,462,281	10,153,454	5,047,078	5,352,761

Source: Clarian Health Management

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FINANCIAL INFORMATION

Historical Financial Information

The following table sets forth a summary of the Consolidated Statements of Operations and Changes in Unrestricted Net Assets for Clarian Health Partners, Inc. and subsidiaries (Clarian Health) for the years ended December 31, 2003, 2004 and 2005 and for the six-month periods ended June 30, 2005 and 2006. This financial-statement information is derived from the consolidated financial statements of Clarian Health. The consolidated financial statements of Clarian Health as of December 31, 2004 and 2005 and for the years then ended are included in Appendix B. **The financial-statement information presented below and the financial statements included in Appendix B include operating results and information for the Obligated Group and other entities that are not Members of the Obligated Group, including Obligated Group Affiliates and other related entities, as defined in the Master Indenture, as amended.**

The financial-statement information for the six-month periods ended June 30, 2005 and 2006 are derived from unaudited consolidated financial statements. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring and other accruals, which management considers necessary for a fair presentation of the financial position, the results of operations and changes in net assets, and cash flows for these periods. Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2006. The financial-statement information should be read in conjunction with the consolidated financial statements, related notes, and other financial information included herein. Certain reclassifications have been made, which had no effect on previously reported net income, to conform comparability of amounts presented.

Nature of Operations

The principal operating activities of Clarian Health and its subsidiaries are conducted at owned facilities or majority controlled subsidiaries and consist of the following:

Clarian Health hospital—Consists principally of Methodist/IU/Riley hospital, which comprise the core hospital and health care delivery system of Clarian Health and whose operations are located in the downtown area of Indianapolis, Indiana. Clarian Health qualifies as a Medicaid Disproportionate Share (DSH) provider under Indiana law. Payments for services to the medically indigent under the DSH program are ratably amortized, on a monthly basis, to income.

Suburban hospitals—Consists of two hospitals and medical office buildings located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Clarian West commenced operations in December 2004 and Clarian North commenced operations in December 2005.

Statewide facilities—Consists of three hospitals and health care delivery systems located in Bedford, LaPorte, and Goshen, Indiana.

Ambulatory care—Consists of certain non-acute health care service providers located in Indianapolis, Indiana.

Medical risk—Consists of medical management of health members whose health care coverage is provided by managed care networks of Clarian Health.

Condensed Consolidated Statements of Operations and Changes In Unrestricted Net Assets
(In Thousands of Dollars)

	Year Ended December 31			Six-Month Period Ended June 30	
	2003	2004	2005	2005	2006
Unrestricted activities					
Revenues:					
Net patient service revenue	$ 1,542,413	$ 1,640,779	$ 1,894,683	$ 926,338	$ 1,004,763
Member premium revenue	249,978	301,911	294,641	147,812	144,294
Other revenues	85,557	68,785	92,637	43,364	43,348
Total operating revenue	1,877,948	2,011,475	2,281,961	1,117,514	1,192,405
Expenses:					
Salaries, services, and benefits	769,800	841,691	960,752	468,663	527,247
Supplies, utilities, and other	691,166	740,590	803,863	387,349	411,620
Health claims expense	150,295	184,384	194,093	101,134	88,020
Depreciation and amortization	104,975	118,922	145,293	66,322	80,448
Provision for uncollected patient accounts	91,155	67,784	112,966	50,917	56,293
Interest	24,461	22,637	26,339	13,380	21,353
Total operating expenses	1,831,852	1,976,008	2,243,306	1,087,765	1,184,981
Operating income	46,096	35,467	38,655	29,749	7,424
Nonoperating gains (losses)					
Investment earnings (losses), net	50,468	55,316	63,034	23,200	44,015
Loss on extinguishment of debt	---	---	(32,106)	---	---
Unrealized gains (losses) on basis and short-duration swaps	6,928	(12,316)	(6,340)	(16,386)	21,402
Minority interest and other	---	1,715	5,726	288	--
Total nonoperating gains (losses)	57,396	44,715	30,314	7,102	65,417
Net income	103,492	80,182	68,969	36,851	72,841
Other changes in unrestricted net assets:					
Change in unrealized gains and losses on investments, net	76,601	29,255	9,908	5,076	(7,188)
Change in fair value of interest rate swaps	12,620	(6,566)	1,199	(18,742)	37,818
Contributions for capital expenditures	1,302	698	10,257	100	---
Change in minimum pension obligation	(15,278)	1,275	(494)	---	---
Other, net, including joint venture capital contributions	2,803	1,785	1,199	(2,427)	58
Increase in Unrestricted Net Assets	$ 181,540	$ 106,629	$ 91,038	$ 20,858	$ 103,529

Coverage of Debt Service

The following table sets forth for the years ended December 31, 2004 and 2005 the net income available to pay debt service requirements on the actual long-term indebtedness outstanding during the periods presented. The table also indicates the extent to which such net income available for debt service would provide coverage for projected debt service requirements on long-term indebtedness, on a proforma basis, after giving effect to the issuance of the Bonds for the periods presented.

Historical and Proforma Debt Service Coverage

	Year Ended December 31	
	2004	2005
	(Dollars in thousands)	
Net Income	$ 80,182	$ 68,969
Depreciation, Amortization and Interest	141,559	171,632
Income Available to Pay Debt Service	$ 221,741	$ 240,601
Actual Annual Debt Service[1]	$ 34,965	$ 40,952
Historical Debt Service Coverage Ratio[2]	6.34x	5.88x
Proforma Maximum Annual Debt Service on the Master Indenture Debt[3,4]	$ 88,066	$ 88,066
Proforma Debt Service Coverage Ratio[2]	2.52x	2.73x

(1) Excluding capitalized interest of $21,287 and $20,888 in 2004 and 2005, respectively (in thousands of dollars).

(2) Rounded to the nearest one-tenth.

(3) Gives effect to the issuance of the Bonds and is based on the assumptions set forth in the table regarding total debt service under the caption “FORECASTED DEBT SERVICE REQUIREMENTS” in the Official Statement provided herewith.

(4) The assumed rates of interest used to determine proforma maximum annual debt service are not calculated in accordance with the method prescribed for calculating debt service to determine compliance with the debt service coverage test under the Master Indenture.

Sources of Revenue

Payments for health care services provided to patients are made by commercial insurance carriers, the federal government under the Medicare program, the State of Indiana under the Medicaid program, HMOs, PPOs and other organizations through contractual arrangements. The following table sets forth the source of payment of the Clarian Health's combined gross patient revenues for the years ended December 31, 2003, 2004 and 2005 and for each of the six-month periods ended June 30, 2005 and 2006.

Sources of Revenue

	Years Ended December 31			**Six-Month Period Ended June 30**	
	2003	**2004**	**2005**	**2005**	**2006**
Medicare	30.49%	31.89%	32.25%	32.34%	32.11%
Medicaid	16.13	17.16	17.13	17.03	17.69
Commercial Insurance	4.44	4.28	4.12	4.53	3.59
HMO/PPO					
M·Plan	4.41	4.23	3.65	3.69	3.31
Wellpoint/Anthem	14.33	15.81	16.50	16.14	17.14
Sagamore	4.61	4.28	4.05	4.09	3.54
Signature	0.44	0.27	0.14	0.15	0.14
Other	16.20	14.84	14.29	14.04	14.44
Self-Pay	4.51	4.62	4.70	4.79	5.07
Other	4.44	2.62	3.17	3.20	2.97
Total	100%	100%	100%	100%	100%

Source: Clarian Health Management

MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

Year Ended December 31, 2003

Revenue. Total revenue of $1,877.9 million increased 7.4% (or $129.5 million) over the prior year. Of this increase, net patient service revenue increased 3.3%, or $49.7 million. This increase was attributable primarily to increases in the pricing of services which went into effect January 1, 2003 and improved reimbursement under certain managed care contracts, offset by a decrease relating to DSH payments. The amount of DSH revenue recorded in 2003 and 2002 was $142 million and $214.2 million, respectively, and for 2002 included payments for two years.

Overall admissions increased 0.3% from 2002, with decreases at Clarian Health hospital offset by increases at Clarian Health's Statewide facilities. Also, outpatient volumes declined 3.5% from 2002 with such decreases primarily related to Clarian Health hospital.

Member premium increased $74.8 million over the prior year to $250 million. The increase was attributable to increases in rates aggregating $29.9 million and a growth in the number of members over 2002 amounting to $44.9 million, which reflected the continued increase in market penetration of Clarian Health's managed care services.

Expenses. Total expenses increased 10.8% to $1,831.9 million over the prior year. Salaries, services and benefits expense increased 5.8% (or $41.9 million) to $769.8 million. A general wage increase of 3.5% was effective for all employees in July 2003. In addition, the number of full time equivalent employees increased by 2% over 2002 and certain adjustments were made to the pay scale of certain key positions to remain competitive with the pay scale of other local health care organizations.

Supplies, utilities, and other expenses of $691.2 million increased 7.4% over the prior year (or $47.5 million) primarily due to increases in pharmaceuticals and other supplies, escalating fuel surcharges, and increased utility costs. Also, approximately $7.5 million of the increase in supplies, utilities, and other related to the costs of outsourcing information technology services by Clarian Health and approximately $3.8 million related to implementation costs of information technology enhancements. However, the use of temporary nursing services, particularly by Clarian Health hospital continued to decline during 2003 as compared to the prior year, which had the effect of decreasing purchased services (which are included with supplies, utilities, and other expenses). In addition, inflationary rate increases during the year ended December 31, 2003 exceeded that of total industry-wide CPI and contributed to the increase in supplies, utilities, and other expenses.

Health claims expense of $150.3 million in 2003 ($100.8 million in 2002) increased due primarily to the increased number of members and an increase in health care servicing costs.

Depreciation expense amounted to $105 million (an increase of 12%) for the year ended December 31, 2003, principally reflecting additional depreciation for assets being placed in service.

The provision for uncollected patient accounts increased $18.5 million over 2002. The increase in total revenue, as well as an increasingly greater level of payment for health care services being borne by patients, contributed to this increase.

Clarian Health continued to experience favorable interest expense during the year ended December 31, 2003, principally resulting from favorable variable interest rates and capitalization of interest costs during construction. However, the interest rates on certain long-term debt have been fixed through interest rate swap arrangements (aggregate nominal amounts of $405 million). The effective interest rate on long-term debt was 3.59% and 3.8% for the year ended December 31, 2003 and 2002, respectively.

Other. Net investment earnings amounted to $50.5 million and unrealized gains on investments totaled $76.6 million for the year ended December 31, 2003. Some volatility of the capital markets continued during 2003; however, management of Clarian Health continued, among other matters, to monitor the investment portfolio for other-than-temporary impairment losses.

Operating margin amounted to 2.5% and total margin was 5.1% for the year ended December 31, 2003 (5.4% and 3.2%, respectively, for the year ended December 31, 2002) excluding unrealized gains and losses on the basis and short-duration swaps. Gains and losses on swap arrangements represent unrealized gains and losses resulting from changes in the fair value of the swaps and reflect the approximate effect if such arrangements were terminated at the balance sheet dates. Changes in the fair value of those swap arrangements which are designated and serve as cash flow hedges are reflected with other changes in unrestricted net assets.

Consolidated Financial Position. During June 2003, taxable and tax-exempt, variable rate bonds aggregating $405 million were issued through the Indiana Health and Educational Facility Financing Authority on behalf of Clarian Health. Interest rate swap arrangements were also entered into which fixed the interest rates on these bonds (ranging from 2.57% to 4.924%) through the maturity dates of the bonds (2033). In addition, $95 million of tax-exempt, variable rate bonds were issued during August 2003 through the Indiana Health and Educational Facility Financing Authority. The proceeds of these bonds, along with certain funds of Clarian Health, are to be used to finance the cost of buildings, machinery, equipment, fixtures, and other capital assets, including interest on the bonds during construction, as well as for reimbursement of certain capital expenditures made by Clarian Health. A portion of the proceeds has been used to fund the development and construction of Clarian West, Clarian North, and the related medical office buildings.

Total cash and investments (which principally consists of cash and equivalents, board designated funds, and trustee-held borrowed funds) amounted to $1,396.8 million at December 31, 2003 ($946.8 million at December 31, 2002). The increase principally reflects the proceeds of the taxable and tax-exempt bonds issued during June and August 2003. The number of days cash and investments on hand were 295 days (205 days exclusive of trustee-held borrowed funds) at December 31, 2003 (221 days and 202 days, respectively, at December 31, 2002). The number of days revenue in receivables was 56 days and 51 days at December 31, 2003 and December 31, 2002, respectively.

The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities was 56 days at December 31, 2003, substantially the same as at December 31, 2002.

Net current assets (i.e., working capital) amounted to $31.1 million at December 31, 2003 ($118.7 million at December 31, 2002). The decrease in the net current assets reflects classification at December 31, 2003 of a portion of the variable rate demand bonds as being currently payable assuming remarketing of these bonds does not occur, which in the opinion of management is remote. Net property and equipment of $1,012.6 million increased $165.1 million from December 31, 2002 reflecting the continued investment in facilities and equipment by Clarian Health.

Unrestricted net assets (or equity) amounted to $1,344 million at December 31, 2003. Long-term debt to total capitalization at December 31, 2003 was 42.6% (34.7% at December 31, 2002) reflecting the additional borrowings in 2003.

During 2003, a minimum pension liability of approximately $15.3 million was recorded with other noncurrent liabilities and charged to net assets, reflecting an unfunded accumulated benefit obligation. The cumulative effect of the volatility of the capital markets over the past several years was the principal cause in pension plan assets being less than the accumulated plan benefits.

Year Ended December 31, 2004

Revenue. Total revenue of $2,011.5 million increased 7.1% (or $133.5 million) over the prior year's period. Of this increase, net patient service revenue increased 6.4%, or $98.4 million. This increase was attributable to increases in the pricing of services (amounting to $33.0 million), improved reimbursement under certain managed care contracts (amounting to $32.5 million), and increases in the volume of services (amounting to $32.9 million). The revenue recognized for the State of Indiana's DSH program amounted to $115.3 million in 2004 and $142.0 million in 2003 (including a retroactive settlement of $9.2 million in 2003).

Overall admissions increased 0.3% from 2003, with increases at Clarian Health hospital, partially offset by a slight decrease at the Statewide facilities. Outpatient volumes grew 3.2% from 2003.

Member premium increased $51.9 million over the prior year to $301.9 million. The increase included a reclassification at year-end relating to consolidating the operations of Carewise, the Medicaid managed care network provider of Clarian Health, which was preciously accounted for using the equity method of accounting. Member premium revenue increased approximately $42 million as a result of this reclassification.

Expenses. Total expenses increased 7.9% to $1,976.0 million or $144.2 million over the prior year's period. Salaries, services, and benefits expense increased 9.3% (or $71.9 million) to $841.7 million. The number of full time equivalent employees increased by 2.2% over 2003. Also, certain adjustments were made to the pay scale of certain key positions to continue to remain competitive with the pay scale of other local health care organizations.

Supplies, utilities, and other expenses of $740.6 million increased 7.2% over the prior year, or $49.4 million reflecting increases in pharmaceuticals and other supplies, escalating fuel surcharge, and increased utility costs. Continued increases in organ acquisition costs associated with the increase in volumes for the transplant program have also contributed to the increase. In addition, inflationary rate increases during the year ended December 31, 2004 contributed to the increase in supplies, utilities, and other expenses.

Health claims expense of $184.4 million in 2004 ($150.3 million in 2003) increased due primarily to the reclassification of Carewise expenses of $37.3 million.

Depreciation expense amounted to $118.9 million (an increase of 13.3%) for the year ended December 31, 2004, principally reflecting additional depreciation for assets being placed in service.

The provision for uncollected patient accounts decreased $23.4 million from 2003 reflecting improved recoveries of approximately $14.5 million over that which were anticipated. In addition, a revised financial assistance and charity care policy was implemented during 2004, the effect of which was to qualify certain patient accounts as charity care and not subject to collection efforts.

Clarian Health continued to experience favorable interest expense during the year ended December 31, 2004, primarily resulting from the favorable variable interest rate environment and capitalization of interest costs during construction. Clarian Health has also implemented an Asset/Liability Management strategy and has entered into a two-tiered interest rate swap program. Certain interest rate swap transactions have been executed (aggregate nominal amount of $405 million) to lock-in fixed rates. Other short-duration interest rate swap transactions have been executed (aggregate nominal amount of $736 million) to take advantage of short-term variable rates. Clarian Health has also entered into basis swaps to partially hedge variable rate exposure. The effective interest rate on long-term debt was 3.72% and 3.59% for the years ended December 31, 2004 and 2003, respectively.

Other. Net investment earnings amounted to $55.3 million and unrealized gains on investments amounted to $29.3 million as of and for the year ended December 31, 2004. Some volatility of the capital markets continued through 2004 and Clarian Health management continued, among other matters, to monitor the investment portfolio for other-than-temporary impairment losses.

Operating margin amounted to 1.8% and total margin was 4.6% for the year ended December 31, 2004 (2.5 % and 5.1%, respectively, for the year ended December 31, 2003) excluding unrealized gains and losses on the basis and short-duration swaps. Gains and losses on swap arrangements represent unrealized gains and losses resulting from changes in the fair value of the swaps and reflect the approximate effect if such arrangements were terminated at the balance sheet dates. Changes in the fair value of those swap arrangements which are designated and serve as cash flow hedges are reflected with other changes in unrestricted net assets.

Consolidated Financial Position. Total cash and investments (which principally consists of cash and equivalents, board designated funds and trustee-held borrowed funds) amounted to $1,367.7 million at December 31, 2004 ($1,396.8 million at December 31, 2003). The number of days cash and investments on hand was 269 days (221 days exclusive of trustee-held borrowed funds) at December 31, 2004 (295 days and 205 days, respectively, at December 31, 2003). The number of days revenue in receivables was 53 days and 56 days at December 31, 2004 and December 31, 2003, respectively. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities was 62 days at December 31, 2004 and 56 days at December 31, 2003.

Net current assets amounted to $113.4 million at December 31, 2004 ($31.1 million at December 31, 2003). During 2004, standby bond purchase and other agreements underlying the variable rate demand bonds were amended, the effect of which permitted long-term classification of such debt in accordance with generally accepted accounting principles. Net property and equipment of $1,252.2 million increased $239.5 million from December 31, 2003 reflecting the continued investment in facilities and equipment by Clarian Health, offset by depreciation for the periods presented.

Unrestricted net assets, or equity, amounted to $1,450.5 million at December 31, 2004. Long-term debt to total capitalization at December 31, 2004 was 42.6% (42.6% at December 31, 2003).

Year Ended December 31, 2005

Revenue. Total operating revenue of $2,282.0 million increased 13.4% (or $270.5 million) over the prior year. Of this increase, net patient service revenue increased $253.9 million, reflecting an increase in revenue of the downtown Indianapolis facilities of Clarian Health hospital of $103.2 million (of which $66.5 million related to rate increases), the initial year of operations for Clarian West with net patient revenue of $46.4 million, an increase in revenue of the Statewide facilities of $36.6 million principally as a result of volume increases, and an increase in revenue due to the change in accounting for EMGI of $24.2 million.

The revenue recognition for DSH, included in net patient service revenue of Clarian Health hospital, amounted to $143.3 million for the year ended December 31, 2005 ($115.3 million in 2004). In addition, settlements of cost reports and adjustments to DSH payments for certain prior years increased net income by $37.6 million in 2005 ($1.0 million in 2004).

Overall, consolidated admissions increased by 4.5% over 2004 with the downtown Indianapolis facilities of Clarian Health hospital remaining relatively flat and Statewide facilities increasing by 2.5%. Overall consolidated outpatient volumes grew 4.5% over 2004 with increases in the downtown Indianapolis facilities and Statewide facilities amounting to 2.5% and 6.4%, respectively. Suburban hospital admissions and outpatient volumes accounted for 3.9% and 2.4%, respectively, of consolidated admissions and outpatient volumes for the year ended December 31, 2005 (0.07% and 0.00%, respectively, for 2004).

Member premium revenue of the Medical Risk operations decreased $7.3 million, reflecting premium increases averaging 3.1%, on a per member /per month basis, offset by a decline in membership of 6.6% in M Plan, Inc., a licensed health maintenance organization related to Clarian Health.

Expenses. Total expenses of $2,243.3 million increased 13.5% over the prior year's amount of $1,976.0 million (or $267.3 million). Expenses for the Suburban hospitals amounted to $59.1 million and $24.6 million in 2005 and 2004, respectively. Expenses for start-up and development expenses of the Suburban hospitals amounted to $15.2 million in 2005 and $11.6 million in 2004.

Salaries, services, and benefits expense of $960.7 million increased 14.1% (or $119.1 million). The number of full time equivalent (FTE) employees increased 5.8% over 2004 to 14,173 FTE employees, which included 412 FTE employees for the Suburban hospitals (or 2.9% of consolidated FTE employees in 2005 and 0.2% of consolidated FTE employees in 2004). An increase in the number of FTE employees at the downtown Indianapolis facilities of Clarian Health hospital accounted for 2.3% of the total increase in FTE employees, reflecting the in-sourcing of certain information technology services and physician operations (which had previously been included in purchased services) and expansion of certain integrated services supporting the Suburban hospital operations during 2005, offset by productivity efficiencies achieved through the implementation of certain operating initiatives during the third and fourth quarters of 2005. General wage increases of 3.3% to 5.5%, which were implemented in the second and third quarters of 2005, market rate adjustments for certain mission-critical medical positions to remain competitive in the marketplace, and increases in employee benefits (principally relating to the pension plan contributions and medical insurance for employees) accounted for the remaining increase in salaries, services, and benefits expense.

Supplies, utilities, and other expenses of $803.9 million increased 8.5% over the prior period amount of $740.6 million (or $63.3 million) primarily due to increases in pharmaceuticals and other supplies, escalating fuel surcharges, increased utility costs, and increased revenue share payments to Indiana University. Supplies expense increased due to inflation and patient volumes, but cost of goods sold decreased slightly from 2004. These increases were offset by the decline in certain purchased services resulting from the in-sourcing of information technology services and certain physician operations.

Health claims expense of $194.1 million increased 5.3% over the prior year amount of $184.4 million (or $9.7 million) primarily due to an increased level of utilization of medical services by members.

Depreciation expense of $145.3 million increased 22.2% over the prior year amount of $118.9 million principally reflecting additional depreciation for assets being placed in service, including $10.7 million for the Suburban hospital operations.

The provision for uncollected patient accounts aggregated $113.0 million in 2005 ($67.8 million in 2004). During 2004, changes were made in the charity care and financial assistance policy to more timely identify, clarify, and expand the qualifications of those patients who qualify for and complete applications for assistance. Included in the provision for uncollected patient accounts are amounts for patients who may have otherwise qualified for charity care but did not complete applications. In addition, increases in patient account balances have been experienced in 2005 reflecting higher levels of account balances being the responsibility of individual patients. Also, in 2004, certain recoveries of uncollected patient accounts resulting from implementation of a denial management program had the effect of reducing the provision for uncollected patient accounts by $7.8 million in 2004.

Clarian Health continued to experience favorable interest expense during the year ended December 31, 2005, primarily resulting from the favorable variable interest rate environment and capitalization of interest costs during construction. Clarian Health has also implemented an Asset/Liability Management strategy and has entered into a two-tiered interest rate swap program. Swaps with notional amounts of $405 and $328 million have been entered into to lock-in fixed rates for the 2003 and 2005 bonds, respectively. Short-duration interest rate swap transactions have also been executed to take advantage of favorable short-term variable rates ($736 million notional amount). Clarian Health also has swaps with a notional amount of $1,001 million to partially hedge other variable interest rate exposure. The effective interest rate on long-term debt was 4.09% and 3.72% for the years ended December 31, 2005 and 2004, respectively.

Other. Net investment earnings amounted to $63.0 million and unrealized gains on investments amounted to $9.9 million for the year ended December 31, 2005 ($55.3 million and $29.3 million, respectively, in 2004) reflecting some rebalancing of the investment portfolio in accordance with the Board-approved policies. In addition, earnings of certain limited liability partnerships that focus on absolute investment returns are accounted for using the equity method of accounting and are included in net investment earnings.

Clarian Health issued $328.4 million in tax-exempt bonds, the proceeds of which along with certain other funds were used to extinguish, through a defeasance, certain Series 1996A and Series 2000A Bonds aggregating $301.9 million. This refinancing was completed on November 15, 2005 and resulted in a $32.1 million loss on extinguishment of debt.

Physicians and physician-group practices have minority interests in the limited liability corporations which own and operate the hospitals and medical office buildings of Clarian West and Clarian North. Minority interests in the operating losses are limited to the capital contributions made by those minority interests and are not included in operating results. Losses in excess of the minority interests' capital contributions are being recognized by Clarian Health.

Operating margin amounted to 1.7% and total margin was 3.3% for the year ended December 31, 2005 (1.8% and 4.6%, respectively, for the year ended December 31, 2004) excluding unrealized gains and losses on the basis and short-duration swaps and the loss on extinguishment of debt. Gains and losses on swap arrangements represent unrealized gains and losses resulting from changes in the fair value of the swaps and reflect the approximate effect if such arrangements were terminated at the balance sheet dates. Changes in the fair value of those swap arrangements which are designated and serve as cash flow hedges are reflected with other changes in unrestricted net assets.

Consolidated Financial Position. Total cash and investments (which principally consists of cash and equivalents, board designated funds, and trustee-held borrowed funds) amounted to $1,264.7 million at December 31, 2005 ($1,367.7 million at December 31, 2004). The number of days cash and investments on hand was 220 days (202 days exclusive of trustee-held borrowed funds) at December 31, 2005 (269 days and 221 days, respectively, at December 31, 2004). The number of days revenue in receivables was 53 days at both December 31, 2005 and December 31, 2004. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities was 62 days at December 31, 2005 and 2004.

Net current assets amounted to $76.2 million at December 31, 2005 ($113.4 million at December 31, 2004). Net property and equipment of $1,474.7 million increased $222.5 million from December 31, 2004 reflecting the continued investment in facilities and equipment by Clarian Health, offset by depreciation for the periods presented. Estimated costs to complete construction-in-progress approximated $497.3 million at December 31, 2005, which is expected to be financed through operations, contributions, and the issuance of tax-exempt bonds. In this connection, during January 2006, tax-exempt fixed-rate bonds in the amount of $327.2 million were issued through the Indiana Health and Educational Facility Financing Authority principally to finance the cost of construction, renovation, and equipping of health facilities. In addition, a $10 million contribution by Riley Childrens Foundation in support of the Riley bed tower was made in 2005 and was included in other changes in unrestricted net assets.

Unrestricted net assets, or equity, amounted to $1,541.6 million at December 31, 2005 ($1,450.5 at December 31, 2004). Long-term debt to total capitalization at December 31, 2005 was 41.4% (42.6% at December 31, 2004).

Six-Month Period Ended June 30, 2005

*Revenue***.** Total operating revenue of $1,117.5 million increased 13.4% (or $131.8 million) over the comparable period of the prior year. Of this increase, net patient service revenue increased $113.2 million, which included $20.1 million for Clarian West, increase in revenue of the downtown Indianapolis facilities amounting to $70.5 million, and an increase in revenue of the Statewide facilities of $20.4 million. Member premium revenue increased $13.5 million relating to reclassifications resulting from the change in accounting method for Carewise of $26.5 million, offset by a $13.0 million decrease in certain managed care operations. The revenue recognition for the State of Indiana's DSH program amounted to $73.4 million for the six-month period ended June 30, 2005 and $55.1 million for the comparable period of the prior year. A one-time settlement relating to a prior year increased DSH revenue by $26.3 million for the six-month period ended June 30, 2005.

Overall admissions and outpatient volumes grew 5.6% and 3.4%, respectively, over 2004. Increases occurred at the downtown Indianapolis facilities of Clarian Health hospital (1.6% and 4.9%, respectively and Statewide facilities 7.1% and 9.7%, respectively).

Expenses. Total expenses of $1,087.8 million increased 12.9% over the prior year's comparable period amount of $959.4 million (or $128.4 million). Clarian West expenses amounted to $34.9 million for the six-month period ended June 30, 2005.

Salaries, services, and benefits expense increased 14.3% (or $58.6 million) to $468.7 million. The increase in the number of full time equivalent employees of 6.6% over 2004 and general wage increases of 3% to 5.7% which were implemented in the second and third quarters of 2004, accounted for the principal causes of the increase.

Supplies, utilities, and other expenses of $387.3 million increased 8.2% over the prior period amount of $358.1 million (or $29.2 million), primarily due to increases in pharmaceuticals and other supplies, escalating fuel surcharges, increased utility costs, and revenue share payments to Indiana University. Supplies increased due to inflation and patient volumes, but cost of goods sold decreased slightly from 2004.

Health claims expense of $101.1 million increased 34.1% over the prior year period amount of $75.4 million (or $25.7 million) primarily due to reclassifications resulting from the change in accounting method related to Carewise and an increased level of utilization of medical services by members.

Depreciation expense of $66.3 million increased 21.4% over the prior year period amount of $54.6 million (or $11.7 million) principally reflecting additional depreciation for assets being placed in service.

The provision for uncollected patient accounts of $50.9 million decreased 1.3% from the prior year period of $51.6 million (or $0.7 million).

Clarian Health continued to experience favorable interest expense during the six-month period ended June 30, 2005, primarily resulting from the favorable variable interest rate environment and capitalization of interest costs during construction. Clarian Health has also implemented an Asset/Liability Management strategy and has entered into a two-tiered interest rate swap program. Certain interest rate swap transactions have been executed to lock-in fixed rates for $405 million of the 2003 bonds. Other short-duration interest rate swap transactions have been executed to take advantage of favorable short-term variable rates. Clarian Health also has $1,001 million basis swaps to partially hedge the variable rate exposure. The effective interest rate on long-term debt was 4.09% and 3.77% for the six-month periods ended June 30, 2005 and 2004, respectively.

Other. Net investment earnings amounted to $23.2 million and unrealized gains on investments amounted to $5.1 million as of and for the six–month period ended June 30, 2005.

Operating margin amounted to 2.7% and total margin was 4.8% for the six-month period ended June 30, 2005 (2.7% and 4.8%, respectively, for the six-month period ended June 30, 2004) excluding unrealized gains and losses on the basis and short-duration swaps. Gains and losses on swap arrangements represent unrealized gains and losses resulting from changes in the fair value of the swaps and reflect the approximate effect if such arrangements were terminated at the balance sheet dates. Changes in the fair value of those swap arrangements which are designated and serve as cash flow hedges are reflected with other changes in unrestricted net assets.

Consolidated Financial Position. During 2003, Clarian Health issued, through the Indiana Health and Educational Facility Financing Authority, taxable and tax-exempt variable rate bonds aggregating $500 million. These bonds were issued principally to refurbish certain facilities of Clarian Health and finance the development and construction of two suburban hospitals and related medical office buildings. Interest rate swap arrangements were also entered into which fixed the interest rates on a portion of these bonds (with interest ranging from 2.57% to 4.924%) through the maturity dates of the bonds (2033). In addition, Clarian Health entered into a short duration (three years) fixed-to-variable interest rate swap program to reduce interest expense (aggregate nominal amount of $736 million through 2007).

Total cash and investments (which principally consists of cash and equivalents, board designated funds and trustee-held borrowed funds) amounted to $1,369.2 million at June 30, 2005 ($1,367.7 million at December 31, 2004). The decrease principally reflects capital expenditures for the suburban hospitals and other capital projects of Clarian Health. The number of days cash and investments on hand was 237 days (207 days exclusive of trustee-held borrowed funds) at June 30, 2005 (269 days and 221 days, respectively, at December 31, 2004). The number of days revenue in receivables was 52 days and 53 days at June 30, 2005 and December 31, 2004, respectively. The number of days expenses in accounts payable, accrued expenses and certain other current liabilities was 59 days at June 30, 2005 and 62 days at December 31, 2004.

Net current assets amounted to $139.0 million at June 30, 2005 ($113.4 million at December 31, 2004), reflecting an increase in accounts receivable resulting from revenue increases. Net property and equipment of $1,348.9 million increased $96.7 million from December 31, 2004 reflecting the continued investment in facilities and equipment by Clarian Health, offset by depreciation for the periods presented.

Unrestricted assets, or equity, amounted to $1,471.5 million at June 30, 2005. Long-term debt to total capitalization at June 30, 2005 was 42.1% (42.6% at December 31, 2004).

Six-Month Period Ended June 30, 2006

Revenue. Total operating revenue of $1,192.4 million for the six months ended June 30, 2006 increased 6.7% (or $74.9 million) over the comparable period of the prior year. Of this change, net patient service revenue increased at the downtown Indianapolis facilities of Clarian Health hospital by $14.5 million (including $7.2 million due to changes in estimates relating to contractual allowances), Statewide facilities increased $14.5 million, and Suburban hospitals increased $55.6 million. Total operating revenues for Clarian North amounted to $42.5 million for the six months ended June 30, 2006 and accounted for most of the increase in operating revenue for the Suburban hospitals.

The revenue recognition for DSH, included in net patient service revenue of Clarian Health hospital, amounted to $62.5 million for the six months ended June 30, 2006 ($73.4 million for the comparable period in 2005 which included a one-time settlement relating to a prior year of $26.3 million).

Overall, consolidated admissions for the six months ended June 30, 2006 increased 7.4% over the comparable period of the prior year (total admissions of 39,771 in 2006 and 37,031 in 2005). Admissions at the downtown Indianapolis facilities of Clarian Health hospital and Statewide facilities decreased by 3.8% and 9.4%, respectively. Admissions at the Suburban hospitals totaled 5,542 for the six months ended June 30, 2006 (999 for the comparable period in 2005). Overall consolidated outpatient visit volumes increased 3.8% over the comparable period in 2005 (total outpatient visits of 651,940 in 2006 and 628,289 in 2005), with decreases at the downtown Indianapolis facilities amounting to 2.5% and increases at the Statewide facilities amounting to 2.1%. Outpatient visits at the Suburban hospitals totaled 53,905 for the six months ended June 30, 2006 (21,444 for the comparable period in 2005). Suburban hospital admissions and outpatient volumes accounted for 13.9% and 8.3%, respectively, of consolidated admissions and outpatient volumes for the six months ended June 30, 2006 (2.7% and 3.4%, respectively, for the comparable period in 2005).

Member premium revenue of the Medical Risk operations decreased $3.5 million, reflecting premium increases averaging 5.3%, on a per member/per month basis, offset by a decline in membership of 3.1% in M Plan, Inc., a licensed health maintenance organization related to Clarian Health.

Expenses. Total expenses of $1,185.0 million increased 8.9% over the prior year's comparable period amount of $1,087.8 million (or $97.2 million). Expenses for the Suburban hospitals amounted to $111.0 million and $34.9 million for the six-month periods in 2006 and 2005, respectively (including $70.8 million for Clarian North for the six months ended June 30, 2006).

Salaries, services, and benefits expense of $527.2 million increased 12.5% (or $58.6 million). The number of full time equivalent (FTE) employees increased 6.6% over the comparable period in 2005 to 14,978 FTE employees, which included 1,108 FTE employees for the Suburban hospitals (or 7.4% and 2.4% of consolidated FTE employees for the comparable periods in 2006 and 2005, respectively). The increase also reflects the in-sourcing of certain information technology services (which had previously been included in purchased services), general wage increases of 3.3% to 5.5%, which were implemented in the second and third quarters of 2005, market rate adjustments for certain mission-critical medical positions to remain competitive in the marketplace, and increases in employee benefits.

Supplies, utilities, and other expenses of $411.6 million increased 6.3% over the prior period amount of $387.3 million (or $24.3 million) primarily due to increases in data processing, utility costs, physician fees, and Clarian North hospital operations. These increases were offset by the decline in certain purchased services resulting from the in-sourcing of information technology services.

Health claims expense of $88.0 million decreased 13.0% over the prior year amount of $101.1 million (or $13.1 million) primarily due to a decrease in the number of members and a decreased level of utilization of medical services by members.

Depreciation expense of $80.4 million increased 21.3% over the prior year amount of $66.3 million principally reflecting additional depreciation for assets being placed in service, including $10.2 million for the Clarian North hospital operations.

The provision for uncollected patient accounts of $56.3 increased 10.6% over the prior period amount of $50.9 million. During 2006, increases in patient account balances have been experienced, reflecting higher levels of account balances being the responsibility of individual patients.

While Clarian Health continues to experience favorable interest rates, net interest expense of $21.4 million increased 59.7% over the prior year amount of $13.4 million reflecting a higher effective interest rate and a reduction in the amount of interest capitalized during construction principally for Clarian North which began operations in December 2005. Clarian Health has also implemented an Asset/Liability Management strategy and has entered into a two-tiered interest rate swap program. Swaps with notional amounts of $405 and $312 million have been entered into to lock-in fixed rates for the 2003 and 2005 bonds, respectively. Short-duration interest rate swap transactions have also been executed to take advantage of favorable short-term variable rates ($736 million notional amount). Clarian also has swaps with a notional amount of $1,326 million to partially hedge other variable interest rate exposure. The effective interest rate on long-term debt was 4.88% and 4.09% for the six-month periods ended June 30, 2006 and 2005, respectively.

Other. Net investment earnings amounted to $44.0 million for the six-month period ended June 30, 2006 ($23.2 million for the comparable prior period). Unrealized gains (losses) on investments amounted to ($7.2) million for the six-month period ended June 30, 2006 ($5.1 million for the comparable prior period) reflecting some rebalancing of the investment portfolio in accordance with Board-approved policies. In addition, earnings of certain limited liability partnerships that focus on absolute investment returns are accounted for using the equity method of accounting and are included in net investment earnings.

Physicians and physician-group practices have minority interests in the limited liability corporations which own and operate the hospitals and medical office buildings of the Suburban hospitals. Minority interests in the operating losses are limited to the capital contributions made by those minority interests and any losses in excess of the minority interests' capital contributions are being recognized by Clarian Health.

Operating margin amounted to 0.6% and total margin was 4.3% for the six-month period ended June 30, 2006 (2.7% and 4.8%, respectively, for the six-month period ended June 30, 2005) excluding unrealized gains and losses on the basis and short-duration swaps. Gains and losses on swap arrangements represent unrealized gains and losses resulting from changes in the fair value of the swaps and reflect the approximate effect if such arrangements were terminated at the balance sheet dates. Changes in the fair value of those swap arrangements which are designated and serve as cash flow hedges are reflected with other changes in unrestricted net assets.

Consolidated Financial Position. Total cash and investments (which consists of cash and equivalents, board designated funds, and trustee-held borrowed funds) amounted to $1,510.1 million at June 30, 2006 ($1,264.7 million at December 31, 2005). The number of days cash and investments on hand was 247 days (193 days exclusive of trustee-held borrowed funds) at June 30, 2006 (220 days and 201 days, respectively, at December 31, 2005). The number of days revenue in receivables was 58 days at June 30, 2006 and 53 days at December 31, 2005. The number of days expenses in accounts payable, accrued expenses, and certain other current liabilities was 49 days at June 30, 2006 and 62 days at December 31, 2005.

Net current assets amounted to $133.7 million at June 30, 2006 ($76.2 million at December 31, 2005) which reflects short-term bank borrowings of $25.0 million at June 30, 2006. Net property and equipment of $1,511.6 million increased $36.9 million from December 31, 2005 reflecting the continued investment in facilities and equipment by Clarian Health, offset by depreciation for the periods presented. Other amounts are anticipated to be incurred but are not legally required or committed and are subject to change or authorization by the Board, aggregating approximately $535.4 million at June 30, 2006, which is expected to be financed through operations, contributions, and the proceeds from the issuance of tax-exempt bonds. In this connection, during January 2006, tax-exempt fixed-rate bonds in the amount of $327.2 million were issued through the Indiana Health and Educational Facility Financing Authority principally to finance the cost of construction, renovation, and equipping of health facilities. Also, during June 2006, short-term bank borrowings of $25 million under a line of credit arrangement were incurred (total line of credit of $50.0 million at one month - LIBOR plus 35 basis points). The borrowing was repaid upon receipt of 2006 DSH payments in July.

Unrestricted net assets, or equity, amounted to $1,645.1 million at June 30, 2006 ($1,541.6 at December 31, 2005). Long-term debt to total capitalization at June 30, 2006 was 45.8% (41.4% at December 31, 2005).

As described under the caption "PLAN OF FINANCE" in this Official Statement, the Bonds are being issued to redeem the Refunded Bonds.

EMPLOYEES

At December 31, 2005, Clarian Health had 14,173 full time equivalent employees, including 338 employed physician full time equivalents, compared to 335 employed physician full-time equivalents restated as of December 31, 2004.

At December 31, 2005, LaPorte Regional Health System, Inc. and LaPorte Regional Physician Network, Inc. had 1,127 full time equivalent employees. At December 31, 2005, Goshen Health System had 1,007 full-time equivalent employees, and Bedford Regional Medical Center had 415 full time equivalent employees. Clarian West and Clarian North had 403 and 599 full time equivalent employees, respectively, at December 31, 2005.

No Clarian Health employees are covered by any collective bargaining agreement. Management of Clarian Health considers its relationship with its employees to be good. Clarian Health provides competitive compensation and benefits programs, which include retirement plans, paid time off, tuition reimbursement, employee wellness and health, life and disability insurance.

INSURANCE

The Indiana Medical Malpractice Act, Indiana Code 34-18-1-1, et. seq. (the "*Medical Malpractice Act*") limits liability for malpractice claims against health care providers who qualify as providers under the Medical Malpractice Act. Each Clarian Health hospital is qualified as a provider under the Medical Malpractice Act. An annual surcharge is assessed against each qualified provider to fund the patient's compensation fund (the "*Fund*") created under the Medical Malpractice Act, the amount of which is established by the Department of Insurance based on an actuarial program. The amount must be sufficient to cover but may not exceed the actuarial risk posed to the Fund by the qualified provider. For malpractice occurring after December 31, 1989, and before July 1, 1999, the Medical Malpractice Act provides for a maximum recovery of $750,000 per claim. For malpractice occurring after June 30, 1999, the Medical Malpractice Act provides for a maximum recovery of $1,250,000. Until July 1, 1999, a health care provider was liable for up to $100,000 of the maximum recovery. Beginning July 1, 1999, the provider's share increased to $250,000. The excess is paid by the Fund. In response to this law, each Clarian Health hospital is insured by the Clarian Health Risk Retention Group insurance, as appropriate, for $250,000 per occurrence and $5,000,000 in the annual aggregate for hospitals of not more than 100 beds and $7,500,000 in the annual aggregate for hospitals of more than 100 beds. Clarian Health maintains a comprehensive portfolio of insurance coverages, including general liability, fiduciary, directors and officers' and employment practices, as are customary in amounts and with carriers that are consistent with the requirements of the Master Indenture and industry practices. Clarian Health believes its risk management programs embody a mix of broad insurance coverages and retention programs that reflect an appropriate and prudent approach for the protection of Clarian Health.

LITIGATION AND AUDITS

As with most multi-hospital systems, there may be, at any point in time, a number of medical malpractice actions filed or pending against providers in the Clarian Health System. Generally, these will be paid or settled from insurance and/or self-insurance coverage, and some will not be pursued by plaintiffs. However, certain actions may seek punitive or other damages, which may not be covered by insurance. Litigation also arises from the corporate and business activities of the members of the Clarian Health System, from their status as major employers, or as a result of medical staff peer review or the denial of medical staff privileges. A recent U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals and seek treble damages. As with medical malpractice, many of these risks are covered by insurance or self-insurance, but some are not. In the unlikely event that a substantial number of uncovered claims were determined adversely to any members of the Clarian Health System who are defendants in such claims, and substantial monetary damages were awarded in each, there could be a material adverse effect on Clarian Health's financial condition.

Methodist Hospital and approximately forty other hospitals have been named defendants in a *Qui Tam* action that was filed approximately eleven (11) years ago. The suit involves Medicare billing procedures during the period from July 1986 through November 1995 for certain investigational cardiac devices that had not received final marketing approval from the Food and Drug Administration. The U.S. Department of Justice intervened in the case. All pretrial proceedings have been consolidated in the U.S. District Court in Connecticut. Methodist Hospital is a member of a joint defense group with the other hospitals defending this action. The U.S. District denied the hospitals' Motions to Dismiss; however, on June 13, 2005, the 2nd Circuit U.S. Court of Appeals agreed to hear the appeal of the District Court's denial of the Motions to Dismiss. Clarian Health believes it has a number of strong substantive and procedural defenses to the lawsuit; and in the unlikely event that an adverse decision was determined against Clarian Health, the decision would not have a material adverse effect on Clarian Health's financial condition.

In July 2005, the Department of Health and Human Services, Office of Inspector General, completed its audit of Clarian Health's organ acquisition costs for the period January 1, 2000 through December 31, 2000. The OIG report recommended that the Medicare intermediary recover a Medicare overpayment of $270,665 for unallowable costs claimed as organ acquisition and work with Clarian Health to determine the allowable portion of other reported costs of the transplant program. Additionally, the OIG recommended that the Medicare intermediary handle subsequent audited years in the same manner. As a result, Clarian Health worked with the Medicare intermediary on Fiscal Years ended December 31, 2000, December 31, 2001, December 31, 2002, and December 31, 2003 to identify the allowable portion of organ acquisition costs for those years and settled the aforementioned years with the Medicare intermediary with the approval by the Office of Inspector General.

Clarian Health is currently involved in an arbitration proceeding with Capgemini. The proceeding involves a dispute over the termination of a contract for the outsourcing of Clarian Health's information services and certain other services. Each party has claims against the other. The arbitration panel has scheduled hearing dates in August 2006 with final arguments scheduled in September 2006. In the opinion of management, settlement of this dispute will not have a material adverse effect on Clarian Health's financial position.

Clarian Health received a notice from the Internal Revenue Service ("*IRS*") dated April 27, 2005, requesting, in connection with a nation-wide examination of Forms 990, Return of Organization Exempt From Tax filed by certain tax-exempt organizations, documents and information relating to the compensation of seventeen individuals for whom Clarian Health reported compensation on its Form 990 for 2002. The IRS has closed the inquiry and issued a no change letter. In addition, Goshen and LaPorte received information requests in connection with a nationwide review by the IRS of the community benefits and charity care provided by hospitals. Goshen and LaPorte responded to the requests by the IRS in July 2006.

The Indiana State Department of Health ("*ISDH*") and the Centers for Medicare and Medicaid Services ("*CMS*") have investigated alleged violations of the Emergency Medical Treatment and Labor Act ("*EMTALA*") at Methodist Hospital and Indiana University Hospital in 2003 and 2005, respectively. In both cases, Clarian Health submitted a plan of correction that was accepted by CMS and ISDH. The cases are still being investigated, and the CMS has up to 6 years from the date of occurrence to file sanctions against Clarian Health. No civil suit has been filed in either case. In both cases, Clarian Health believes it acted in full compliance with EMTALA requirements.

In June 2006, Clarian Health received an inquiry from the Medicaid Fraud Control Unit of the Indiana Attorney General's Office requesting information on an employee in Clarian Health's pathology laboratory. Upon investigation in cooperation with the Attorney General's Office, Clarian Health confirmed that the employee, a laboratory technician, is on the OIG List of Excluded Individuals/Entities and also discovered that two other employees are on the OIG Exclusion List. Clarian Health immediately terminated the services of these employees, conducted a review of its policies and procedures and instituted changes to prevent a reoccurrence. Clarian Health is compiling a list of billings from services provided by these employees for the Attorney General's Office and will work with the Attorney General to resolve any billing and/or repayment issues. Clarian Health does not believe that any repayment obligations resulting from this investigation will have a material adverse effect on Clarian Health's financial condition.

ACCREDITATION AND MEMBERSHIPS

Methodist Hospital, Indiana University Hospital and Riley Hospital were most recently surveyed by the Joint Commission on Accreditation of Health Care Organizations in 2005 and were awarded accreditation for a three year period ending in 2008. Clarian West and Clarian North have also been accredited by the Joint Commission on Accreditation of Health Care Organizations through 2008. LaPorte Hospital, Goshen General Hospital and Bedford Regional Medical Center were each surveyed by the Joint Commission on Accreditation of Health Care Organizations in 2004 and were awarded accreditation for three year periods ending in 2007.

Each of the foregoing hospitals is certified for Medicare and Medicaid participation. In addition, Clarian Health retains membership in the American Hospital Association, Indiana Health and Hospital Association, the American Protestant Health Association, Voluntary Hospitals of America, the Council of Teaching Hospitals and Health Systems (which is a council of the Association of American Medical Colleges), the National Association of Children's Hospitals and Related Institutions and the University Health System Consortium.

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APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLARIAN HEALTH PARTNERS, INC.

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Consolidated Financial Statements

Clarian Health Partners, Inc. and subsidiaries
Years Ended December 31, 2005 and 2004

Clarian Health Partners, Inc. and subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2005 and 2004

Contents

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Report of Independent Auditors

The Board of Directors
Clarian Health Partners, Inc.

We have audited the accompanying consolidated balance sheets of Clarian Health Partners, Inc. (an Indiana nonprofit corporation) and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Clarian Health Partners, Inc. and subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Clarian Health Partners, Inc.'s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Clarian Health Partners, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarian Health Partners, Inc. and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 28, 2006

Clarian Health Partners, Inc. and subsidiaries

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31	
	2005	**2004**
Assets		
Current assets		
Cash and cash equivalents	**$ 118,468**	$ 151,003
Patient accounts receivable, less allowance for uncollectible accounts of $89,904 and $67,197 in 2005 and 2004, respectively	**258,726**	227,356
Member premium and other receivables	**43,320**	43,403
Prepaid expenses	**20,579**	7,457
Inventories	**36,951**	32,045
Current portion of trustee-held funds for construction	**5,890**	13,231
Total current assets	**483,934**	474,495
Assets limited as to use		
Board-designated investment funds	**1,036,292**	961,740
Trustee-held funds for construction and debt service, less current portion	**104,053**	241,780
Total assets limited as to use, less current portion	**1,140,345**	1,203,520
Property and equipment		
Cost of property in service	**2,411,503**	1,926,637
Less accumulated depreciation	**(1,225,614)**	(1,093,115)
	1,185,889	833,522
Construction-in-progress	**288,823**	418,653
Total property and equipment, net	**1,474,712**	1,252,175
Other assets		
Equity interest in managed care organization	**38,378**	26,980
Interests in net assets of related foundations	**58,130**	52,058
Interest rate swaps	**7,253**	6,054
Unamortized bond issue costs	**20,005**	16,643
Other	**29,916**	37,934
Total other assets	**153,682**	139,669
Total assets	**$ 3,252,673**	$ 3,069,859

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	December 31	
	2005	**2004**
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 235,432**	$ 207,225
Accrued health claims	**35,303**	35,167
Salaries, wages, and related liabilities	**83,464**	71,121
Estimated third-party payor allowances	**34,357**	32,855
Current portion of long-term debt	**19,177**	14,720
Total current liabilities	**407,733**	361,088
Noncurrent liabilities		
Long-term debt, less current portion	**1,131,297**	1,117,618
Basis and short duration swaps	**32,115**	25,775
Accrued pension obligations	**29,891**	29,397
Accrued medical malpractice claims	**35,309**	21,175
Minority interest	**–**	253
Other	**14,607**	9,583
Total noncurrent liabilities	**1,243,219**	1,203,801
Total liabilities	**1,650,952**	1,564,889
Net assets		
Unrestricted	**1,541,585**	1,450,547
Temporarily restricted	**35,993**	34,267
Permanently restricted	**24,143**	20,156
Total net assets	**1,601,721**	1,504,970
Total liabilities and net assets	**$ 3,252,673**	$ 3,069,859

See accompanying notes.

Clarian Health Partners, Inc. and subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Thousands of Dollars)

	Years Ended December 31	
	2005	**2004**
Revenue		
Net patient service revenue	**$ 1,894,683**	$ 1,640,779
Member premium revenue	**294,641**	301,911
Other revenue	**92,637**	68,785
Total operating revenue	**2,281,961**	2,011,475
Expenses		
Salaries, wages, and benefits	**960,752**	841,691
Supplies, drugs, purchased services, and other	**803,863**	740,590
Health claims to providers	**194,093**	184,384
Depreciation	**145,293**	118,922
Provision for uncollected patient accounts	**112,966**	67,784
Interest	**26,339**	22,637
Total operating expenses	**2,243,306**	1,976,008
Operating income	**38,655**	35,467
Nonoperating gains (losses):		
Interest, dividends, and realized gains and losses on sales of investments	**63,034**	55,316
Loss on extinguishment of debt	**(32,106)**	–
Loss on basis and short duration swaps	**(6,340)**	(12,316)
Minority interest	**5,726**	1,715
Total nonoperating gains	**30,314**	44,715
Net income	**68,969**	80,182

Continued on next page.

Clarian Health Partners, Inc. and subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Thousands of Dollars)

	Years Ended December 31	
	2005	**2004**
Unrestricted net assets		
Net income	**$ 68,969**	$ 80,182
Change in unrealized gains and losses on investments, net	**9,908**	29,255
Change in minimum pension obligation	**(494)**	1,275
Change in fair value of interest rate swaps	**1,199**	(6,566)
Contributions for capital expenditures	**10,257**	698
Other	**1,199**	1,785
	91,038	106,629
Temporarily restricted net assets		
Gifts, bequests, grants, and other	**1,726**	4,652
Net assets released from restrictions used for operations	**–**	(3,634)
	1,726	1,018
Permanently restricted net assets		
Gifts, bequests, grants, and other	**3,987**	2,781
	3,987	2,781
Increase in net assets	**96,751**	110,428
Net assets at beginning of year	**1,504,970**	1,394,542
Net assets at end of year	**$ 1,601,721**	$ 1,504,970

See accompanying notes.

Clarian Health Partners, Inc. and subsidiaries

Consolidated Statements of Cash Flows

(Thousands of Dollars)

	Years Ended December 31	
	2005	**2004**
Operating activities		
Increase in net assets	**$ 96,751**	$ 110,428
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in unrealized gains on investments, net	**(9,908)**	(29,255)
Change in fair value of basis and short duration swaps	**6,340**	12,316
Change in fair value of interest rate swaps	**(1,199)**	6,566
Change in minimum pension liability	**494**	(1,275)
Income in unconsolidated subsidiaries	**(17,183)**	(7,641)
Depreciation and amortization	**145,293**	118,922
Loss on extinguishment of debt	**32,106**	–
Restricted contributions	**(5,713)**	(3,799)
Net changes in operating assets and liabilities:		
Patient accounts receivable, net	**(31,370)**	(6,704)
Inventories and other assets	**(9,276)**	44,051
Accounts payable and accrued liabilities	**51,673**	59,696
Salaries, wages, and related liabilities	**12,343**	(10,379)
Estimated third-party payor allowances	**1,502**	7,822
Net cash provided by operating activities	**271,853**	300,748
Investing activities		
Purchase of property and equipment, net of disposals	**(367,830)**	(358,463)
Decrease in assets limited as to use, net	**71,828**	142,895
Other	**–**	12,619
Net cash used in investing activities	**(296,002)**	(202,949)
Financing activities		
Restricted contributions	**5,713**	–
Repayments on long-term debt	**(342,833)**	(12,328)
Proceeds from issuance of long-term debt	**328,987**	–
Minority interest	**(253)**	(831)
Net cash used in financing activities	**(8,386)**	(13,159)
(Decrease) increase in cash and cash equivalents	**(32,535)**	84,640
Cash and cash equivalents at beginning of year	**151,003**	66,363
Cash and cash equivalents at end of year	**$ 118,468**	$ 151,003

See accompanying notes.

Mission Statement

The mission of Clarian Health is to improve the health of our patients and community through innovation and excellence in care, education, research and service.

Clarian Health will preserve, strengthen and build upon these values:

*A patient's **total care**, including mind, body and spirit*
*Excellence in **education** for health care providers*
*Quality of care and **respect** for life*
***Charity**, equality and justice in health care*
*Leadership in health promotion and **wellness***
*Excellence in **research***
*An internal community of **trust** and respect*

1. Organization and Nature of Operations

Organization

Clarian Health Partners, Inc. (Clarian Health), an Indiana nonprofit corporation, and subsidiaries operate as a health care delivery system providing health care services throughout the state of Indiana. Services provided by Clarian Health and its subsidiaries include: acute, nonacute, tertiary, and quaternary care services on an inpatient, outpatient, and emergency basis; medical education and research; medical management services; health care diagnostic and treatment services for individuals and families in physician clinics and physician-group practices; occupational health care for businesses; and home health care.

Clarian Health was formed as a collaborative arrangement, as of January 1, 1997, under the terms of a Definitive Health Care Resources Consolidation Agreement, as amended (the Consolidation Agreement), and certain other related agreements by and between the Trustees of Indiana University and Methodist Health Group, Inc. The facilities and operations of Indiana University Hospital and Outpatient Center (I.U. Hospital), James Whitcomb Riley Hospital for Children (Riley Hospital), and Methodist Hospital of Indiana (Methodist Hospital) (collectively, Clarian Hospital) were merged and consolidated to form Clarian Health, which was licensed as a single, acute care hospital.

1. Organization and Nature of Operations (continued)

Under terms of the Consolidation Agreement and related agreements, substantially all real property of I.U. Hospital, Riley Hospital, and Methodist Hospital was sold, transferred, leased, or otherwise conveyed on a long-term basis (99 years) to Clarian Health at an annual, nominal amount. Substantially all liabilities were also assumed or, in the case of long-term debt, were refinanced by Clarian Health. Members of the Board of Directors of Clarian Health are selected by its two classes of members – the Methodist Class (members of which are members of Methodist Health Group, Inc.) and the University Class (members of which are the individuals who are the Trustees of Indiana University).

Nature of Operations

The principal operating activities of Clarian Health and its subsidiaries are conducted at owned facilities or majority controlled subsidiaries and consist of the following:

Clarian Hospital (Methodist/I.U./Riley Hospital) – Consists of acute, nonacute, tertiary, and quaternary care, and diagnostic facilities, which comprise the core hospital and health care delivery system of Clarian Health, whose operations are located in the downtown area of Indianapolis, Indiana. Medical education and research, a significant portion of which is provided in conjunction with the Indiana University School of Medicine (School of Medicine) as defined in the Consolidation Agreement, are key elements of Clarian Hospital's operations.

Suburban Hospitals (Clarian West and Clarian North) – Consists of two acute and nonacute care hospitals and medical office buildings located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Clarian West commenced operations in December 2004, and Clarian North commenced operations in December 2005.

Statewide Facilities – Consists of acute and nonacute care hospitals and health systems located in Bedford, LaPorte, and Goshen, Indiana. Principal subsidiaries include Bedford Regional Medical Center, Inc. (Bedford), LaPorte Regional Health System, Inc. (LaPorte), and Goshen Health System, Inc. (Goshen).

1. Organization and Nature of Operations (continued)

Ambulatory Care – Consists of occupational health, home health, physician offices, and physician-group practices and clinics, substantially all of which are located in Indianapolis, Indiana. Principal subsidiaries or divisions include Methodist Medical Group Physicians, Methodist Occupational Health Centers, Inc., and Clarian Home Care.

Medical Risk – Consists of the medical management of health care services of members whose health care coverage is provided by the managed care networks of Clarian Health. The principal subsidiary and division include Methodist Medical Group, Inc. (MMG) and Carewise, a Medicaid managed care network, respectively.

Clarian Health and its subsidiaries have also entered into certain partnership agreements with physicians for the operation of an ambulatory surgery center (located in Indianapolis, Indiana), network or management arrangements with several other hospitals to provide or operate hospital, rural outreach, or other medical services and programs (located in Terre Haute, Tipton, Martinsville, Greensburg, Evansville, and Kokomo, Indiana), a joint venture arrangement with another Indianapolis, Indiana hospital for the operation of a long-term rehabilitative care hospital (also located in Indianapolis), a membership and ownership arrangement with six other Indiana hospitals or health systems in a health maintenance organization that offers health insurance plans and claims administration to employers and providers throughout the state of Indiana, a 50% membership interest with a county governmental institution (located in Indianapolis, Indiana) in a nonprofit corporation which manages provider networks serving Medicaid patients, and a 50% membership interest with Indiana University Emerging Technology Corp., a nonprofit corporation, in a specialized cancer treatment and diagnostic clinic.

2. Community Benefit and Charity Care

Clarian Health and its subsidiaries provide health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, improve the health of low-income patients, and foster medical education and research through its affiliation with the School of Medicine. Consistent with the mission of Clarian Health, care is provided to patients regardless of their ability to pay. In addition, Clarian Health and its subsidiaries provide services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources or are uninsured or underinsured. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of Clarian Health's benefit provided to the community since a substantial portion of such services are reimbursed at amounts less than cost.

During 2004, Clarian Health's charity care and financial assistance policy was changed to more timely identify, clarify, and expand the qualifications of those patients who qualify for charity care and financial assistance. Patients who meet certain criteria for charity care (generally based on federal poverty guidelines), or who meet criteria to be part of Clarian Health's medical education and research programs, are provided care without charge or at amounts less than established rates. The amount of charity care provided is determined based on the qualifying criteria, as defined in the charity care and financial assistance policy, and applications completed by patients and their families or beneficiaries. No payment for services is anticipated and no billing is prepared for those patients whose charity care applications have been approved. In addition, Clarian Health and its subsidiaries provide a significant amount of uncompensated care to uninsured and underinsured patients, which is included in the provision for uncollected patient accounts, and includes amounts for patients who may have otherwise qualified for charity care but did not complete applications.

(Thousands of Dollars)

2. Community Benefit and Charity Care (continued)

Reimbursements are received by Clarian Health and its subsidiaries for Medicare and Medicaid beneficiaries in accordance with reimbursement agreements and related regulatory rules and regulations. Also, as a Medicaid Disproportionate Share (DSH) provider (see Note 3), Clarian Health receives certain DSH payments. These reimbursements and payments are less than the cost of providing the related services. The unreimbursed cost of providing community benefit and charity care, net of reimbursements and payments, is summarized as follows:

	Years Ended December 31 2005	2004
	(Unaudited)	
Medicare and Medicaid	**$ 334,333**	$ 266,281
Uncompensated care (charity care and uncollected patient accounts)	**77,912**	68,301
Education for health care providers, including support to the School of Medicine	**52,485**	52,095
Commitment to medical, spiritual, and emotional needs, including counseling centers and chaplaincy programs	**2,903**	3,061
Programs to enhance quality of and respect for life, including neighborhood revitalization, community health clinics, and school clinics	**146**	4,264
Charity, equality, and justice programs, including AIDS clinic, older adult clinics, and other clinical programs	**2,591**	895
Health promotion and wellness programs, including OASIS (an over 55-age program), Indiana Poison Center, safe driving, pregnancy and parenting classes, and other prevention and intervention programs	**4,795**	2,389
Other medical research	**3,125**	2,896
Medical Knowledge Fund – medical research	**1,171**	6,165
Children's Values Fund – supporting pediatric faculty	**2,002**	2,006
Internal community of trust, respect and empowerment, including employee wellness development	**597**	1,489
Total identified or quantified community benefit and charity care	**$ 482,060**	$ 409,842

The costs of providing these programs and services are included in expenses in the accompanying consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Clarian Health and all majority-owned or controlled subsidiaries. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control is participatory with others or where ownership is 50% or less. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Values of Financial Instruments

Financial instruments include cash and cash equivalents, patient, member premium and other accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor allowances, long-term debt, derivative financial instruments (i.e., interest rate, basis, and short duration swaps), and certain other current assets and liabilities. The fair values for cash and cash equivalents, patient, member premiums and other accounts receivable, accounts payable and accrued expenses, accrued health claims, estimated third-party payor allowances, and certain other current assets and liabilities approximate the carrying amounts reported in the consolidated balance sheets and, in the opinion of management, represent highly liquid assets or short-term obligations not subject to being discounted. The fair values for assets limited as to use, derivative financial instruments, and long-term debt are described in Notes 4 and 6.

3. Summary of Significant Accounting Polices (continued)

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. Certain revenue is subject to estimated retroactive revenue adjustments under reimbursement agreements with third-party payors due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that the related services are rendered, and such amounts are adjusted in future periods as adjustments become known.

In 2005, the percentage of net patient service revenue derived under Medicare, Medicaid, and managed care programs approximated 23%, 9%, and 56%, respectively (23%, 13%, and 49%, respectively, in 2004). One managed care provider, Wellpoint, Inc., represented 17% of net patient service revenue in 2005 and 14% in 2004. Provision has been made, by a charge to contractual allowances as an offset to patient service revenue, for the differences between gross charges for patient services and estimated reimbursement from these government and insurance programs. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Clarian Health qualifies as a Medicaid Disproportionate Share (DSH) provider under Indiana law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive DSH payments. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. During 2005 and 2004, DSH payments have been made by the state of Indiana, and Clarian Health records such amounts as revenue when received based on preliminary data acceptable to the state of Indiana less any amounts management believes may be subject to adjustment. Clarian Health recognized $143,258 and $115,275 of DSH payments as net patient service revenue in 2005 and 2004, respectively. DSH payments by the State of Indiana are based on the fiscal year of the state, which ends on June 30th of each year.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated settlements could change by a material amount in the near term. Management believes that adequate provisions have been made for any adjustments which may result from such final settlements. Changes in estimated allowances increased net income by $37,553 in 2005 and $1,048 in 2004 (including $13,850 in 2005 and $5,357 in 2004 relating to DSH payments).

3. Summary of Significant Accounting Policies (continued)

Member Premium Revenue and Health Claims

Clarian Health and its subsidiaries have agreements to provide medical services to subscribing participants or members. These agreements generally provide for pre-defined payments (on a per member/per month basis) regardless of services actually performed.

The cost to provide health care services under these agreements is accrued in the period in which the health care services are provided to a member based, in part, on estimates, including an accrual for medical services provided but not yet reported. A portion of these expenses are intercompany between Clarian Health and its subsidiaries, which are eliminated in consolidation. Expenses which are not related to Clarian Health are reported as health claims to other providers in the accompanying consolidated statements of operations and changes in net assets. Such expenses are limited, in certain cases, as a result of stop-loss insurance coverage which has been purchased by Clarian Health and its subsidiaries.

Cash Equivalents

Investments in highly liquid instruments with an original maturity of three months or less when purchased, excluding assets limited as to use, are considered by management to be cash equivalents. Clarian Health and its subsidiaries routinely invest in money market and mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Accounts Receivable and Allowance for Doubtful Accounts

Clarian Health and its subsidiaries extend credit to patients, substantially all of whom are residents of the state of Indiana, and do not require collateral or other security for the delivery of health care services. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

The provision for uncollected patient accounts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for doubtful accounts based upon accounts receivable payor composition and aging, and historical write-off experience by payor category as adjusted for

(Thousands of Dollars)

3. Summary of Significant Accounting Policies (continued)

collection indicators. The results of this review are then used to make any modifications to the provision for uncollected patient accounts and the allowance for doubtful accounts. In addition, Clarian Health and its subsidiaries follow established guidelines for placing certain past due patient balances with collection agencies. Patient accounts which are uncollected, including those placed with collection agencies, are charged against the allowance for doubtful accounts in accordance with collection policies of Clarian Health. The composition of net patient accounts receivable are summarized as follows as of December 31, 2005 and 2004:

	2005	2004
Managed care	**39%**	42%
Medicare	**15**	16
Medicaid	**10**	11
Other third-party payors	**10**	14
Patients	**26**	17
	100%	100%

One managed care provider, Wellpoint Inc., represented 14% of patient accounts receivables in both 2005 and 2004.

Inventories

Inventories consist primarily of drugs and supplies, are stated at the lower of cost or market, and generally valued using the average cost method.

Assets Limited as to Use

Assets limited as to use include: (i) cash and cash equivalents and designated investment assets set aside by the Board of Directors (the Board) for future capital improvements and for other purposes, over which the Board retains control and may at its discretion use for other purposes and (ii) assets held by trustees under bond or trust indenture agreements for construction and debt service. Substantially all assets limited as to use are invested and managed by professional investment managers and are held in custody by financial institutions.

3. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Included in property and equipment are software costs developed for internal use accounted for in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.*

Equipment under capital lease obligations is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation in the consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction and other interest costs are capitalized as a component of the cost of constructing the assets. In addition, interest earnings on unexpended borrowed funds related to tax-exempt financings are also capitalized. Repair and maintenance costs are expensed when incurred.

Clarian Health and its subsidiaries evaluate when events or changes in circumstances have occurred that would indicate whether the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Such events or changes in circumstances may include any of the following: a significant decrease in the market price of a long-lived asset; a significant adverse change in the extent or manner in which a long-lived asset is being used or its physical condition; a significant adverse change in legal factors or business climate that could affect the value of a long-lived asset; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset; a protracted loss of cash flows which would indicate continued losses associated with the use of a long-lived asset; and, a current expectation that a long lived-asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Such estimates of loss are identified and prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

3. Summary of Significant Accounting Policies (continued)

Unamortized Bond Issuance Costs and Bond Discount

Costs incurred in connection with the issuance of long-term debt are amortized using the bonds outstanding method, which approximates the amortization under the effective interest rate method. Bond discounts are amortized using the effective interest rate method and amounts amortized are included in interest expense in the accompanying consolidated statements of operations and changes in net assets.

Derivative Financial Instruments

As part of its Asset/Liability Management Program, Clarian Health has entered into interest rate swap, basis swap, and short duration swap transactions. Clarian Health accounts for its derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and Statement of Position 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-profit Healthcare Organizations* (SOP 02-2). SOP 02-2 requires that not-for-profit health care organizations apply the provisions of SFAS No. 133 (including the provision pertaining to cash flow hedge accounting) in the same manner as for-profit enterprises, and clarifies that the performance indicator reported by not-for-profit health care organizations is analogous to income from continuing operations for a for-profit enterprise. SFAS No. 133 requires that derivative instruments be recognized as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and on the type of hedging relationship.

For those derivative instruments that are designated and qualify as hedging instruments, a determination must be made as to whether such instruments are a fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. To the extent that such derivative financial instruments are designated and qualify as cash flow hedging instruments, the effective portion of the gain or loss on the derivative instrument is reported as a component of net assets and reclassified as a component to net income in the same period or periods during which the hedged transaction affects earnings. As of and for the years ended December 31, 2005 and 2004, Clarian Health's basis swap and short duration swap agreements did not qualify for hedge accounting. However, the interest rate swap agreements entered into in connection with the Series 2005 A, B, C, and D, and Series 2003 A, B, C, D, E, F, and G bonds were designated and qualified as cash flow hedges, the effect of which was to fix the long-term interest rate at rates ranging from 2.57% to 4.924%.

3. Summary of Significant Accounting Policies (continued)

Medical Malpractice

Clarian Health's medical malpractice coverage is provided through a program of commercial insurance with a self-insured retention for claims made prior to July 1, 2002, and coverage through captive insurance companies effective July 1, 2002. The program of medical malpractice coverage considers limitations in claims and damages prescribed by the Indiana Medical Malpractice Act (the Act), which limits the amount of individual claims to $1,250 of which $1,000 would be paid by the State of Indiana Patient Compensation Fund (the Fund) and $250 by Clarian Health. The Act also requires that health care providers meet certain requirements, including making funding payments to the Fund, and maintaining certain insurance levels. Clarian Health has met these requirements and is a qualified provider under the Act, retaining risk of $250 per occurrence and up to $7,500 in the annual aggregate.

Subsidiaries and affiliates of Clarian Health also participate in the medical malpractice program, including coverage offered by certain wholly owned captive insurance companies (or, from July 1, 2002 to June 30, 2004, by the fronting carrier, Continental Casualty Company). Commercial insurance carriers also provide reinsurance for certain excess general liability coverage of the captive insurance companies, on a claims-made basis (aggregating $80,000). To the extent that insurance coverage for medical malpractice is not provided by commercial insurance carriers, including reinsurers, contributions to the program are determined using a discount rate of 4.5% on a claims-made basis.

Contributions to the captive program are expensed as incurred and loss reserves are established for incurred but not yet reported claims. Loss reserves are discounted using a discount rate of 4.5%. Laws in the jurisdiction in which the captive insurance companies are domiciled require, among other matters, that certain capital and funding requirements be met. Investments held by the captive insurance companies aggregated $33,164 and $21,828 at December 31, 2005 and 2004, respectively, and are included in the accompanying consolidated balance sheets as cash and cash equivalents.

In addition, included with other assets in the consolidated balance sheets are Board designated funds held in trust of $737 and $1,878 at December 31, 2005 and 2004, respectively, which are designated for malpractice and certain other claims.

3. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Interests in net assets of foundations are accounted for in accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the underlying assets of which consist primarily of cash and cash equivalents, money market and mutual funds, and marketable equity and debt securities. Temporarily and permanently restricted net assets are those assets whose use has been limited by donors to a specific time period or purpose. These net assets are generally restricted for indigent and other patient care services, medical education and research programs, and medical supplies and equipment.

Income Taxes

The Internal Revenue Service has determined that Clarian Health and certain of its affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. Certain subsidiaries of Clarian Health are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

3. Summary of Significant Accounting Policies (continued)

Operating and Performance Indicators

The activities of Clarian Health and its subsidiaries are primarily related to providing health care services and, accordingly, expense information by functional classification is not used as a basis for measuring performance. Further, since substantially all resources are derived from providing health care services, similar to that if provided by a business enterprise, the following indicators are considered important in evaluating how well management has discharged their stewardship responsibilities:

> **Operating Indicator (Operating Income)** – Includes all unrestricted revenue, gains and other support, and expenses directly related to the recurring and on-going health care operations during the reporting period. The operating indicator excludes investment returns on assets limited as to use, changes in the fair value of interest rate, basis and short duration swaps, loss on the extinguishment of debt, losses on the disposal or abandonment of assets considered to be unusual in nature or infrequent in occurrence, minority interest, and gains and losses deemed by management not to be directly related to providing health care services.
>
> **Performance Indicator (Net Income)** – The performance indicator excludes changes in unrealized gains and temporary losses on investments, changes in minimum pension obligations, changes in the fair market value of swap arrangements deemed to qualify for hedge accounting (presently, interest rate swaps), and contributions for capital expenditures.

Reclassifications

The 2005 consolidated financial statements reflect net patient revenue and operating expenses of certain physician operations which had previously been reflected in other operating revenue on a net basis. The related revenue and expenses for 2004 amounted to $21,914 and $21,789, respectively, and have not been reclassified. In addition, certain other balance sheet reclassifications have been made to conform with the 2005 presentation. These reclassifications had no effect on previously reported net income or net assets.

4. Assets Limited as to Use

Assets limited as to use include Board-designated cash and cash equivalents and investment funds, and trustee-held funds principally for construction and debt service. Board-designated investment funds are invested in accordance with certain Board-approved policies, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single organization. Trustee-held funds are generally invested in cash equivalents and U.S. government and agency obligations, as defined by the debt agreements. Clarian Health has determined the estimated fair value of the assets limited as to use using market information and other appropriate valuation methodologies.

Clarian Health also has investments with limited liability partnerships (LLPs) that focus on absolute return investment strategies. These LLPs utilize a multi-manager, fund of funds approach designed to produce positive investment returns regardless of market activity. The underlying investments may include equity, fixed income securities, commodities, currencies, and derivatives. These instruments are subject to various risks similar to nonderivative financial instruments including market, credit, liquidity, operational, and foreign exchange risk. The largest allocation to any fund of funds manager is $110,410. Clarian's investment in any individual LLP is less than 5% of that fund's net assets. Generally, redemption may be made with written notice ranging from 90 days to one year. These investments are accounted for under the equity method of accounting, based on the LLPs' financial information which is generally one month in arrears when Clarian Health prepares its financial statements.

Unrealized gains and losses in the fair value of Board-designated funds that are not invested in LLPs are included as a component of net assets and excluded from net income unless market impairment losses on specific investments are deemed to be other-than-temporary. Investment impairment losses that are deemed to be other-than-temporary are based on a variety of factors specific to the related investment or company, and are recorded as nonoperating losses in the consolidated statements of operations and changes in net assets. Realized gains and losses on investments and investment interest and dividend income for assets limited as to use that are not LLPs are reflected, net of investment expenses, with nonoperating gains and losses when incurred or earned.

4. Assets Limited as to Use (continued)

The following methods and assumptions are used by Clarian Health to estimate the fair value of assets limited as to use:

- Cash and cash equivalents – The carrying amounts reported in the consolidated balance sheets approximate fair value.

- Marketable securities – The fair value amounts of marketable securities are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

- Other investments – These investments are stated at fair value as determined by the administrators of each underlying fund, in consultation with fund investment managers.

(Thousands of Dollars)

4. Assets Limited as to Use (continued)

The composition of assets limited as to use is set forth below.

	December 31 2005	December 31 2004
Cash and cash equivalents	**$ 71,563**	$ 58,506
Marketable securities:		
U.S. government and agency obligations	**167,107**	351,912
U.S. corporate obligations	**121,005**	183,669
U.S. equity securities	**390,384**	338,129
Non-U.S. securities	**133,643**	99,971
Total marketable securities	**812,139**	973,681
Other investments:		
Absolute return strategy (fund of funds)	**251,518**	175,326
Real estate investment trusts and other	**11,015**	9,238
Total other investments	**262,533**	184,564
Subtotal	**1,146,235**	1,216,751
Less current portion	**(5,890)**	(13,231)
Total assets limited as to use, less current portion	**$ 1,140,345**	$ 1,203,520

The current portion of assets limited as to use represent construction draws on trustee-held funds for amounts included in accounts payable.

(Thousands of Dollars)

4. Assets Limited as to Use (continued)

Aggregate cost of investments was $1,046,044 and $1,127,626 at December 31, 2005 and 2004, respectively. The composition and presentation of investment return recognized in the consolidated statements of operations and changes in net assets are as follows:

	Years Ended December 31 2005	2004
Nonoperating gains:		
Interest income on borrowed funds not capitalized	**$ 3,479**	$ 1,547
Interest and dividend income	**24,575**	16,689
Realized gains and losses on sales of investments, net	**34,980**	37,080
	63,034	55,316
Changes in unrealized gains and losses in fair value of investments, net	**9,908**	29,255
	$ 72,942	$ 84,571

Temporary Impairment

The following table summarizes the unrealized losses on investments, which are considered to be temporary, at December 31, 2005.

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury obligations and direct obligations of U.S. government agencies	**$ 12,832**	**$ 113**	**$ 2,977**	**$ 83**	**$ 15,809**	**$ 196**
Federal agency mortgage-backed securities	**3,884**	**54**	**–**	**–**	**3,884**	**54**
U.S. corporate obligations	**8,392**	**100**	**73,469**	**2,059**	**81,861**	**2,159**
U.S. equity securities and non-U.S. equity securities	**60,760**	**6,885**	**12,597**	**1,983**	**73,357**	**8,868**
Real estate investment trusts and other	**1,507**	**34**	**46,234**	**1,332**	**47,741**	**1,366**
Total temporarily impaired securities	**$ 87,375**	**$ 7,186**	**$ 135,277**	**$ 5,457**	**$ 222,652**	**$ 12,643**

(Thousands of Dollars)

4. Assets Limited as to Use (continued)

The following table summarizes the unrealized losses on investments, which are considered to be temporary, at December 31, 2004.

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury obligations and direct obligations of U.S. government agencies	$ 67,127	$ 239	$ 123,391	$ 2,684	$ 190,518	$ 2,923
Federal agency mortgage-backed securities	26,108	150	4,770	119	30,878	269
U.S. corporate obligations	27,460	267	2,246	32	29,706	299
U.S. equity securities and non-U.S. equity securities	21,884	1,457	5,316	311	27,200	1,768
Real estate investment trusts and other	7,655	66	3,825	97	11,480	163
Total temporarily impaired securities	$ 150,234	$ 2,179	$ 139,548	$ 3,243	$ 289,782	$ 5,422

The public equity markets may experience significant volatility, which could impact the fair value of investments held by Clarian Health and its subsidiaries. Management and a Board-appointed committee monitor the investment portfolio and may periodically determine that declines in the fair value of securities should be considered other-than-temporary. Considerations factored into this determination are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, and the length of time and extent to which the market value has been less than cost.

(Thousands of Dollars)

5. Property and Equipment

The cost of property and equipment in service is summarized as follows:

	December 31 2005	December 31 2004
Land and improvements	**$ 88,311**	$ 38,169
Buildings and improvements	**1,317,860**	1,047,729
Equipment (including software developed for internal use)	**1,005,332**	840,739
	$ 2,411,503	$ 1,926,637

Useful lives of each category of assets are based on the estimated useful timeframe that the particular assets are expected to be in service, generally in accordance with guidelines established by the American Health and Hospital Association. Assets are depreciated on a straight-line basis with asset lives ranging as follows: land improvements (20 – 30 years), buildings and improvements (15 – 40 years), and equipment, including software developed for internal use (3 – 10 years). Depreciation expense amounted to $145,293 and $118,922 for 2005 and 2004, respectively.

Construction-in-progress is anticipated to extend through 2006 and includes commitments for the construction, refurbishment, and replacement of facilities and equipment. A summary of the construction-in-progress as of December 31, 2005, is as follows:

	Construction-in-Progress
Software developed for internal use	$ 70,540
Clinical laboratory	45,582
Riley bed tower	16,241
Cancer hospital	14,089
Other facilities and equipment	142,371
	$ 288,823

Firm commitments for construction-in-progress totaled $28,615 at December 31, 2005. However, other amounts are anticipated to be incurred but are not legally required or committed and are subject to change or authorization by the Board, aggregating approximately $497,265.

6. Long-Term Debt

Obligated Group

A Master Trust Indenture (MTI), as amended, provides for the issuance of long-term debt under an obligated group structure. The Obligated Group includes Clarian Health and LaPorte. This group is required to meet certain covenants under the MTI and the members are jointly and severally liable for the obligations under the MTI. The Obligated Group is subject to certain financial performance covenants, among other compliance requirements, that require the maintenance of debt service ratios and limit the Obligated Group's ability to encumber certain of its respective assets. As of December 31, 2005, management of the Obligated Group believes that they are in compliance with all financial covenants.

Issuance and Extinguishment of Debt

On November 15, 2005, Clarian Health issued, through the Indiana Health and Educational Finance Authority, insured, tax-exempt Auction Rate Securities, Revenue Bonds Series 2005 A, B, C, and D in the amount of $328,425 under the MTI. The proceeds, net of bond discount and issuance costs of $9,515, were used to advance refund a portion of the Series 1996A Revenue Bonds maturing on or after February 15, 2008 ($160,180), a portion of the Series 2000A Revenue Bonds maturing on or after February 15, 2011 ($141,715), and accrued interest ($4,173). The net proceeds of the 2005 Bonds, together with funds from Clarian Health, were irrevocably deposited with an escrow agent to purchase U.S. government securities for use in the extinguishment of the Series 1996A and Series 2000A Revenue Bonds and to pay accrued interest. This transaction resulted in a loss from extinguishment of debt of $32,106 (including the write-off of related Series 1996A and 2000A issuance costs) which has been reflected in the 2005 consolidated statement of operations and changes in net assets. Also, as a result of this transaction, it is expected that reduced debt service requirements will provide present value savings of $33,116 over the life of the Series 2005 A, B, C and D Revenue Bonds.

(Thousands of Dollars)

6. Long-Term Debt (continued)

Long-term debt as of December 31, 2005 and 2004, consists of the following:

	2005	2004
Indiana Health and Educational Facility Financing Authority:		
Auction Rate Securities, Tax-Exempt Revenue Bonds, Series 2005A, B, C, and D – Serial Bonds, payable in varying principal installments commencing in 2007 through 2033. Variable interest rates of 3.50%, 3.55%, 3.67%, and 3.25%, respectively, at December 31, 2005.	**$ 328,425**	$ –
Auction Rate Securities, Tax-Exempt Revenue Bonds, Series 2003A, B, C, and D – Serial Bonds, payable in varying principal installments commencing in 2007 through 2033. Variable interest rates of 3.15%, 3.40%, 3.55%, and 3.20%, respectively, at December 31, 2005 (1.90%, 1.95%, 1.75%, and 1.85%, respectively, at December 31, 2004).	**180,000**	180,000
Auction Rate Securities, Taxable Hospital Revenue Bonds, Series 2003E, F, and G – Serial Bonds, payable in varying principal installments commencing in 2007 through 2033. Variable interest rates of 4.26%, 4.25%, and 4.30%, respectively, at December 31, 2005 (2.31%, 2.28%, and 2.33%, respectively, at December 31, 2004).	**225,000**	225,000
Variable Rate Demand, Tax-Exempt Hospital Revenue Bonds, Series 2003H and I – Serial Bonds, payable in varying principal installments commencing in 2007 through 2033. Variable interest rates of 3.52% and 3.54%, respectively, at December 31, 2005 (1.98% and 2.01%, respectively, at December 31, 2004).	**95,000**	95,000
Fixed Rate Tax-Exempt Hospital Revenue Bonds, Series 2000A – Serial Bonds, payable in varying principal installments through 2030 with interest rates ranging from 4.75% to 5.20%.	**5,995**	148,755
Variable Rate Demand Tax-Exempt Hospital Revenue Bonds, Series 2000B and C – Serial Bonds, payable in annual principal installments through March 2030. Variable interest rates of 3.80% and 3.52%, respectively, at December 31, 2005 (1.90% and 1.98%, respectively, at December 31, 2004).	**186,000**	189,800
Fixed Rate Tax-Exempt Hospital Revenue Bonds, Series 1996A – Serial and Term Bonds, payable in varying principal installments through 2021 with interest rates ranging from 5.25% to 6.0%.	**15,200**	182,335
Variable Rate Demand Tax-Exempt Hospital Revenue Bonds, Series 1996B and C – Term Bonds, payable February 2026. Variable interest rates of 3.52% at December 31, 2005 (1.98% at December 31, 2004).	**109,300**	109,300
Other, interest rates from 2.27% to 11.5%.	**8,622**	11,160
	1,153,542	1,141,350
Less unamortized discount	**(3,068)**	(9,012)
Less current portion	**(19,177)**	(14,720)
Long-term portion, less current portion	**$ 1,131,297**	$ 1,117,618

(Thousands of Dollars)

6. Long-Term Debt (continued)

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year ending December 31:	
2006	$ 19,177
2007	26,437
2008	27,380
2009	27,505
2010	29,720
Thereafter	1,023,323
	$ 1,153,542

The estimated fair value of long-term debt at December 31, 2005, and 2004 is $1,153,887 and $1,157,329, respectively, based on market interest rates for similar issues.

Under the provisions of the Series 1996B, 1996C, 2000B, 2000C, 2003H, and 2003I Variable Rate Demand Bonds, bondholders have the option to present the bonds for purchase at various times during the year. Two commercial banks, J. P. Morgan/Chase Bank (as successor to Bank One, N.A.) and Bank of Nova Scotia, have agreed, pursuant to standby bond purchase agreements, to provide liquidity support should any bonds presented by bondholders for purchase not be remarketed. The termination date for these agreements is August 2008. The standby bond purchase agreements were amended during 2004 to provide that any amounts paid by the commercial banks to bondholders and converted to term loans are to be repaid in three equal principal installments over a two-year period, the first payment of which is due 366 days after the bank purchase. Accordingly, the Series 1996B, 1996C, 2000B, 2000C, 2003H, and 2003I Variable Rate Demand Bonds have been classified as long term at December 31, 2005. Unused principal commitments under these agreements totaled $390,300 at December 31, 2005.

Clarian Health has purchased credit insurance related to the Series 2005A, 2005B, 2005C, 2005D, 2003A, 2003B, 2003C, 2003D, 2003E, 2003F, and 2003G Auction Rate Securities and the bondholders do not have the ability to require redemption of the bonds, through repurchase, by Clarian Health or a bank. Accordingly, these bonds have been classified as long term.

6. Long-Term Debt (continued)

Interest-Rate Swap Arrangements

Clarian Health entered into long-term interest rate swap arrangements related to the Series 2005 and Series 2003 revenue bonds to mitigate interest rate risk. Specifically, Clarian Health entered into the following fixed payor swaps:

- $175,500 Series 2005 A and B paying 3.19%.
- $152,925 Series 2005 C and D paying 3.35%.
- $180,000 Series 2003 A, B, C, and D paying 2.570% to 3.225%.
- $225,000 Series 2003 E, F, and G paying 4.924%.

During 2004, Clarian Health entered into a short duration (three years) fixed-to-variable interest rate swap program to reduce interest expense. Specifically, Clarian Health entered into the following fixed receiver swaps:

- $180,000 Series 2003 A, B, C, and D receiving 2.45%.
- $225,000 Series 2003 E, F, and G receiving 3.10%.
- $148,755 Series 2000A receiving 2.53%.
- $182,335 Series 1996A receiving 2.39%.

Clarian Health has also entered into basis swaps to hedge interest rate fluctuations related to certain variable interest rates. The basis swaps mature in 2021 and 2024 and relate to long-term debt with corresponding maturities.

The basis swaps and the short duration swaps did not meet the criteria as hedging instruments. Accordingly, the changes in fair values of the swaps have been reflected in the accompanying consolidated statements of operations and changes in net assets as nonoperating gains and losses. The fair values of the swaps have been included with other noncurrent liabilities in the accompanying consolidated balance sheets and amounted to $32,115 and $25,775 as of December 31, 2005 and 2004, respectively.

6. Long-Term Debt (continued)

The variable-to-fixed interest rate swap arrangements were designated and qualified as effective cash flow hedges. The fair value of these swaps, which represents the accumulated gains on hedged activity, has been included with other assets and is a component of net assets in the accompanying consolidated balance sheets and amounted to $7,253 and $6,054 at December 31, 2005 and 2004, respectively. The impact of ineffectiveness was not significant in 2005 and 2004. Gains, existing at December 31, 2005, which are expected to be reclassified into the performance indicator from net assets during 2006, are not expected to be significant.

Total interest paid on long-term debt in 2005 and 2004 aggregated $45,586 and $41,255, respectively. Total interest capitalized during 2005 and 2004 included interest cost of $20,888 and $21,287, respectively, which was offset by interest income of $2,593 and $2,770, respectively, on nontaxable, unexpended borrowed funds.

On January 13, 2006, Clarian Health entered into two basis swap agreements with a total notional amount of $325,000. These basis swaps did not meet the criteria as hedging instruments, and therefore, the changes in fair value will be recorded in non-operating investment income (loss) in the consolidated statements of operations and changes in net assets.

On January 24, 2006, Clarian Health issued, through the Indiana Health and Educational Facility Financing Authority, tax-exempt fixed-rate Revenue Bonds Series 2006A in the amount of $327,170 under the MTI. The proceeds will be used to finance the cost of construction, renovation, and equipping of health facilities and to pay related costs of insurance. Maturities of the Series 2006A Bonds begin in 2031.

In February 2006, Clarian Health entered into a $50,000 bank line of credit. The agreement has a variable interest rate based on LIBOR.

7. Retirement Plans

Defined Contribution Plans

Pension benefits are provided to substantially all employees of Clarian Health and its subsidiaries primarily through defined contribution plans. Contributions by Clarian Health to the defined contribution plans are based on compensation of qualified employees and amounted to $26,861 in 2005 and $27,434 in 2004 (net of forfeitures amounting to $5,091 and $2,844 for 2005 and 2004, respectively).

Defined Benefit Plans

Employees of LaPorte are provided pension benefits through a noncontributory, defined benefit pension plan. In addition, a defined benefit pension plan established for employees not electing to participate in the defined contribution plan at the time of Clarian Health's formation and a nonqualified supplemental retirement plan, both of which have been curtailed, provide pension benefits for approximately 1,300 current and former employees of Clarian Health. Pension benefits are based on years of service and compensation of employees and are actuarially determined. Where applicable, the funding policy is to annually contribute the contribution required to comply with ERISA regulations. Assets of the defined benefit pension plans consist of stocks and bonds of publicly listed domestic and international companies, U.S. government securities, and absolute investment strategies investments and are reported at fair value.

(Thousands of Dollars)

7. Retirement Plans (continued)

The following table sets forth the funded status of the defined benefit plans and amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2005 and 2004. Date of data collection is January 1 for 2005 and 2004, respectively (rolled forward to year-end and adjusted for changes in employment status).

	2005	2004
Change in benefit obligation:		
Benefit obligation at the beginning of year	**$ 121,320**	$ 106,252
Service cost	**4,121**	3,978
Interest cost	**6,923**	6,712
Actuarial loss	**4,646**	7,995
Benefits paid	**(5,810)**	(3,617)
Benefit obligation at the end of year	**$ 131,200**	$ 121,320
Change in assets of the plans:		
Fair value of assets at beginning of year	**$ 76,048**	$ 69,831
Actual return of assets	**5,116**	8,394
Employer contributions	**2,817**	1,441
Benefits paid	**(5,810)**	(3,617)
Fair value of assets at end of year	**$ 78,171**	$ 76,049
Reconciliation of accrued pension cost:		
Funded status of the plan	**$ (53,029)**	$ (45,272)
Unrecognized net loss	**32,111**	29,403
Unrecognized prior service cost	**463**	604
Unrecognized net transition obligation (asset)	**17**	(21)
Settlement loss	**(888)**	–
Accrued pension cost	**$ (21,326)**	$ (15,286)
Amounts recognized in consolidated balance sheets:		
Accrued benefit liability	**$ (36,013)**	$ (29,604)
Intangible asset	**190**	315
Minimum pension liability recorded as an adjustment to unrestricted net assets	**14,497**	14,003
Net amount recognized	**$ (21,326)**	$ (15,286)

The accrued benefit liability at December 31, 2005 includes $6,122 classified with current liabilities for lump-sum benefits to be paid in 2006.

(Thousands of Dollars)

7. Retirement Plans (continued)

	2005	2004
Components of net pension benefit cost:		
Service cost	**$ 4,121**	$ 3,978
Interest cost	**6,923**	6,712
Expected return on assets	**(6,129)**	(5,834)
Recognized actuarial loss	**1,040**	766
Amortization of unrecognized prior service cost	**141**	182
Amortization of unrecognized net asset	**(38)**	(264)
Amortization of unrecognized net gain	**1,909**	2,528
Net periodic pension cost	**$ 7,967**	$ 8,068
Weighted-average actuarial assumptions used were:		
Discount rate for benefit obligation at year-end	**5.38%**	5.75%
Expected rate of return on plan assets	**8.38%**	8.50%
Rate of compensation increase	**4.25%**	4.50%
Expected future benefit payments:		
Fiscal Year		
2006		$ 7,211
2007		$ 4,305
2008		$ 4,708
2009		$ 9,426
2010		$ 6,464
2011 – 2015		$ 41,499

At December 31, 2005 and 2004, the accumulated pension benefit obligation exceeded the fair value of the plans' assets by $20,868 and $15,350, respectively, and has been included with other noncurrent liabilities. Changes in the minimum pension obligation are charged or credited to unrestricted net assets.

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the respective plan.

The principal long-term determinant of a plan's investment return is its asset allocation. The plans' allocations are heavily weighted towards equity assets versus other investments. The expected long-term rate of return assumption is based on the mix of assets in the plans, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. These assumptions are periodically benchmarked against peer plans.

(Thousands of Dollars)

7. Retirement Plans (continued)

The weighted-average asset allocations of the plans at December 31, 2005 and 2004, by asset category, are as follows:

	2005	2004
Asset category		
Equity and equity-like securities	**65%**	65%
Debt securities	**25**	20
Absolute return strategies (funds of funds)	**10**	15
	100%	100%

The allocation strategy for the plans currently comprises approximately 50% to 85% equity investments and 15% to 50% fixed-income investments. The largest component of these equity and equity-like instruments is public equity securities that are diversified and invested in U.S. and international companies.

8. Related Party and Certain Other Strategic Transactions

Indiana University School of Medicine

The Consolidation Agreement requires that Clarian Health fund salaries and related employee benefit costs for medical doctor interns and residents of the School of Medicine who provide services at Clarian Health's facilities. Clarian Health's Board of Directors annually reviews and determines the level of support to the School of Medicine for these programs and the number of internships and residencies to be supported by Clarian Health. These costs totaled $29,768 and $28,385 in 2005 and 2004, respectively, and have been reported with salaries, wages, and benefits expense in the accompanying consolidated statements of operations and changes in net assets.

8. Related Party and Certain Other Strategic Transactions (continued)

Clarian Health also provides indirect support to the School of Medicine's medical education activities through payments to the Trustees of Indiana University for the benefit of the School of Medicine. The amount of the ongoing level of support is determined by formula as specified in the Consolidation Agreement. Total indirect support aggregated $10,000 in 2005 and 2004 and has been included with supplies, drugs, purchased services, and other expenses in the accompanying consolidated statements of operations and changes in net assets.

The Consolidation Agreement also provides for additional support to the School of Medicine through a revenue sharing agreement to recognize, as a result of the consolidation, the enhanced and increased level of services being provided, including services to the medically indigent through medical education and research. Annually (or more often), an appointed committee consisting of representatives of Clarian Health, Methodist Health Group, Inc., and Indiana University determines a percentage of the Clarian Hospitals' projected net patient service revenue, as defined in the Consolidation Agreement, to be provided to the School of Medicine. During 2005 and 2004, Clarian Health expensed $75,835 and $54,920, respectively, related to support for the School of Medicine of which $12,096 was unpaid at December 31, 2005. Payments have been classified in the accompanying consolidated statements of operations and changes in net assets with supplies, drugs, purchased services, and other.

Clarian Health purchases certain services from the School of Medicine. These expenses, principally for medical director services, utilities, laboratory services, and other services, totaled $17,579 and $17,092 in 2005 and 2004, respectively, and have been reported with supplies, drugs, purchased services, and other expenses in the accompanying consolidated statements of operations and changes in net assets. Clarian Health also provided financial subsidies to I.U. Healthcare, Inc., a primary care medical group consisting primarily of physicians employed by the School of Medicine, totaling $1,113 in 2005 and $1,100 in 2004.

8. Related Party and Certain Other Strategic Transactions (continued)

Suburban Hospitals

In 2004 and 2005, Clarian Health developed and constructed two hospitals and related medical office buildings located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Limited liability corporations were formed by Clarian Health for the ownership and operation of the hospitals and medical office buildings (collectively, the Companies). Through the issuance of private placement memorandums, membership interests in these Companies have been sold to individual physicians and physician-group practices meeting certain eligibility requirements. The terms of the offerings for the hospital joint ventures stipulate that Clarian Health will not hold less than 60% of the membership interests in the corporations owning and operating the suburban hospitals. However, Clarian Health's membership interests in the corporations owning and operating the related medical office buildings is not stipulated and could be less than 50%, dependent on the extent of participation in ownership by the physicians and physician-group practices.

Certain governance and management responsibilities of the Companies have been transferred by Clarian Health to the respective governing bodies of the hospital and medical office building corporations. Representation on the governing bodies of each of the Companies approximates the percentage of the members' ownership interests.

Start-up, organization, and development costs aggregated $15,159 and $11,641 in 2005 and 2004, respectively, and have been charged to operations.

(Thousands of Dollars)

8. Related Party and Certain Other Strategic Transactions (continued)

The suburban hospitals and medical office buildings have been financed through the capital contributions of the members and borrowings from Clarian Health. Amounts borrowed from Clarian Health are payable on a long-term basis and at a fixed interest rate commensurate with the risks as if the borrowings were made solely by the individual Companies. At December 31, 2005 and 2004, capital contributions by the members aggregated $21,690 and $8,040, respectively, of which approximately $15,070 and $6,360, respectively, related to interests held by Clarian Health. Minority interests in the operating losses are limited to the minority interests' capital contributions. Accordingly, Clarian Health is recognizing all subsequent losses. Summarized financial information for Clarian West and North is as follows as of and for the years ended December 31, 2005 and 2004:

	2005	2004
Current assets	**$ 15,340**	$ (3,657)
Property and equipment	**409,702**	157,994
Other assets	**–**	502
Total assets	**$ 425,042**	$ 154,839
Long-term debt (payable to Clarian Health)	**$ 454,987**	$ 169,660
Noncurrent liabilities	**6,503**	(8,618)
Members' deficit	**(36,448)**	(6,203)
Total liabilities and members' deficit	**$ 425,042**	$ 154,839
Operating revenue	**$ 52,699**	$ 694
Operating expenses	**83,575**	3,332
Operating loss	**(30,876)**	(2,638)
Start-up, organization, and development costs	**15,159**	11,641
Net operating loss	**(46,035)**	(14,279)
Other	**870**	35
Net loss	**$ (45,165)**	$ (14,244)

8. Related Party and Certain Other Strategic Transactions (continued)

Related Foundations

Methodist Health Foundation, Inc. and Riley Children's Foundation are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are organized primarily to provide support to indigent and other patient care programs, fund certain medical education and research activities, and engage in certain fundraising activities, a substantial portion of which is on behalf of, or for, specific health care activities of certain operations of Clarian Health. The financial statements of these foundations are not included in the consolidated financial statements. The interest in net assets of these related foundations is included with other assets and net assets in the accompanying consolidated balance sheets and amounted to $58,130 and $52,058 at December 31, 2005 and 2004, respectively, in accordance with SFAS No. 136. The consolidated net assets include unrestricted support, provided by Riley Children's Foundation, of $12,375 and $2,375 in 2005 and 2004, respectively, including $10,000 for the Riley bed tower. Other changes in the net assets of these foundations are generally reflected with temporarily and permanently restricted net assets.

Other Equity Interest Ventures

In the accompanying consolidated financial statements, Clarian Health has recorded its equity in the income of its unconsolidated subsidiaries with other revenue totaling $17,183 and $7,614 in 2005 and 2004, respectively. A substantial portion of the income relates to Clarian Health's 87% ownership interest in The HealthCare Group, LLC (THCG). THCG's wholly owned subsidiary, The M●Plan, is a licensed health maintenance organization (HMO) that provides coverage to enrolled members throughout the state of Indiana. The risk of loss for health care coverage provided to members is generally required to be borne by those health care providers that have entered into managed care contracts with The M●Plan. Clarian Health participates jointly with the other owners of THCG in the management and oversight of THCG. However, the minority membership owners of THCG have significant participatory rights; accordingly, Clarian Health accounts for its investment in THCG using the equity method of accounting.

Payments to THCG for health care benefits relating to Clarian Health employees who have chosen The M●Plan products were $54,679 and $46,593 for the years ended December 31, 2005 and 2004, respectively. Member premium payments to MMG from THCG amounted to $246,595 for 2005 and $263,617 for 2004. Additionally, MMG has a receivable from THCG of $30,546 and $33,294 as of December 31, 2005 and 2004, respectively.

(Thousands of Dollars)

8. Related Party and Certain Other Strategic Transactions (continued)

During 2004, Clarian Health contributed $12,000 for a 50% membership interest in Midwest Proton Radiotherapy Institute, LLC (MPRI), a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. MPRI is a cancer treatment and diagnostic clinic located in Bloomington, Indiana, and is currently under development.

Clarian Health has a 50% membership interest in MDWise, Inc., a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code, which manages a network of health care providers serving Medicaid patients through the state of Indiana's Medicaid managed care program. The M●Plan provides administrative and health claims payment processing for these networks, including Carewise, a division of Clarian Health. Clarian Health also has joint venture arrangements for the operation of an ambulatory surgery center and long-term rehabilitative care hospital.

Summarized financial information for THCG, MDWise, Inc., the surgery center, rehabilitative hospital, and cancer treatment and diagnostic clinic as of and for the years ended December 31, 2005 and 2004, is as follows:

	2005	2004
Net assets	**$ 68,149**	$ 58,745
Total revenue	**696,696**	943,834
Net income	**27,933**	13,692

Pending Transaction

Clarian Health and Arnett Physician Group, P.C. have entered into a nonbinding letter of intent regarding the formation of a joint venture, limited liability company to own and operate an acute care hospital in Lafayette, Indiana, and other health care facilities (the Lafayette Project). The Board of Directors of Clarian Health has authorized management to enter into a definitive agreement with Arnett Physician Group, P.C. that reflects the terms and conditions necessary to complete the development of the Lafayette Project. The estimated cost of the Lafayette Project is $170,000.

(Thousands of Dollars)

9. Commitments and Contingencies

In December 1998, Clarian Health sold various outpatient and professional office facilities to a real estate investment trust (REIT). In connection with the sale, Clarian Health executed multiple long-term leases, extending through 2008. The transaction was recorded as a financing type lease, and proceeds were recorded as a financing obligation. As of December 31, 2005 and 2004, $7,100 and $9,535, respectively, of the financing obligation was included with other noncurrent liabilities. Lease payments have been allocated between reductions to the financing obligation and interest expense based on the effective interest method and Clarian Health's incremental borrowing rate on the date of the initial transaction. Clarian Health has the option to repurchase a limited number of properties from the REIT at an agreed-upon market value over the initial ten-year period of the lease. Future minimum lease payments through the end of the agreement are $21,138. Lease payments were $7,247 and $7,069 for 2005 and 2004, respectively.

Future minimum lease payments required under noncancelable operating leases for buildings and medical and office equipment as of December 31, 2005, are as follows:

Year ending December 31:	
2006	$ 19,966
2007	17,315
2008	19,244
2009	12,690
2010	8,828
	$ 78,043

Rent and lease expense totaled $24,728 and $21,477 during the years ended December 31, 2005 and 2004, respectively.

10. Guarantees and Other

Clarian Health has guaranteed with its joint venture partner a portion of the long-term debt of the rehabilitative care hospital aggregating approximately $8,750.

Cash and cash equivalents held and managed by Clarian Health on behalf of organizations that are not consolidated (principally consisting of cash accounts for The M●Plan) aggregated $23,715 and $17,660 at December 31, 2005 and 2004, respectively, and are included with accounts payable and accrued expenses.

11. Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, Medicare and Medicaid fraud and abuse, and security, privacy, and standards of health information. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and noncompliance with regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, significant repayments for patient services previously billed, and disruptions or delays in processing administrative transactions, including the adjudication of claims and payment.

During 2002, the Office of Inspector General (OIG) of the Department of Health and Human Services performed a review of the census of, and related costs related to, medical interns and residents included in reports of reimbursable cost (cost reports) required to be filed under the Medicare and Medicaid regulations. In addition, the OIG performed an audit of transplant costs included in the 2000 cost report filed by Clarian Health. These matters have been referred to the intermediary for resolution of amounts reported in these and other previously filed cost reports. Clarian Health has settled all such matters but, as allowed by applicable regulations, is appealing certain matters through the Provider Reimbursement Review Board.

In the opinion of management, there are no known regulatory inquiries which are expected to have a material adverse effect on the consolidated financial statements of Clarian Health; however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS AND DEFINITIONS

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SUMMARY OF PRINCIPAL DOCUMENTS AND DEFINITIONS

The following statements are summaries of certain provisions of the Indenture, the Master Indenture and the Loan Agreement. These summaries do not purport to be complete and are subject to all of the terms and conditions of the Indenture, the Master Indenture or the Loan Agreement, to which reference is hereby made, the form of which is available for examination at the offices of the Authority and the Trustee. Capitalized terms not defined elsewhere in the Official Statement or in this Appendix C have the meanings set forth in the Indenture.

DEFINITIONS OF CERTAIN TERMS

In addition to terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in the Master Indenture, the Indenture, the Loan Agreement and this Official Statement. Reference is hereby made to the Master Indenture, the Indenture and the Loan Agreement for complete definitions of all terms.

"Accelerable Instrument" means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of an event of default under such Obligation or instrument, the holder thereof may request that the Master Trustee declare such Obligation or Indebtedness due and payable prior to the date on which it would otherwise become due and payable.

"Accounts" means, collectively, all accounts (as such term is defined in the UCC), accounts receivable, other receivables, contracts, contractual rights, tax refunds or other obligations or indebtedness owing to any Member of any kind or description, secured or unsecured, now or hereafter existing, whether or not arising out of or in connection with the payment for goods sold or leased for services rendered, whether or not earned by performance, and all sums of money or other proceeds due or not earned by performance, all sums of money or other proceeds due or becoming due thereon, together with all rights now or hereafter existing under guarantees and collateral security therefor and under leases and other contracts securing, guaranteeing or otherwise relating to any of the foregoing, including without limitation (a) all rights to receive any performance or any payments in money or in kind; (b) all right, title and interest in and to the goods, services or other property that give rise to or that secure any of the foregoing, and insurance policies and proceeds thereof relating thereto; (c) all rights as an unpaid seller of goods and services including, without limitation, all rights or stoppage in transit, replevin, reclamation and resale; (d) all rights to receive any Medicare/Medicaid Receivables or rights to payments under any other federal programs or state and local governmental programs providing for the payment of or reimbursement for services rendered, and private insurance programs (including without limitation, Blue Cross and prepaid health organizations, including health maintenance organizations or preferred provider organizations), in each case only to the extent permitted under applicable law; (e) reversionary interests in pension and profit-sharing plans, and reversionary, beneficial and residual interests in trusts, credits with and any other claims against any Person; and (f) all ledger sheets, files, records and documents relating to any of the foregoing, including all computer records, programs, storage media and computer software used or required in connection therewith.

"Act" means the Indiana Code 5-1-16, as from time to time amended or supplemented.

"Annual Evaluation Date" means the last day of each Fiscal Year of the Members, currently December 31, commencing December 31, 2006.

"Authority" means the Indiana Health and Educational Facility Financing Authority, a public body politic and corporate organized under the laws of the State of Indiana, and any successors and assigns.

"Authority Request," "Authority Order" or "Authority Consent" means, respectively, a written request, order or consent of the Authority, signed by the Chair or Vice Chair of the Authority or other officer of the Authority designated pursuant to an Authority Resolution, and delivered to the Trustee.

"Authority Resolution" means a resolution, ordinance or other appropriate enactment by the Authority certified by an appropriate officer thereof to have been duly adopted by the Authority and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Bank Accounts" means all deposit accounts and shall include, without limitation, all checking, investment or deposit accounts (general or specific, time or demand, provisional or final) at any time maintained by any Member, including without limitation Medicare and Medicaid Accounts, and all moneys, securities, instruments, and general intangibles deposited or held therein.

"Beneficial Owner" means the Person in whose name a Bond is recorded as beneficial owner of such Bond by the Securities Depository or a Participant or an Indirect Participant on the records of such Securities Depository, Participant or Indirect Participant, as the case may be, or such Person's subrogee, so long as the Book Entry System is in effect with respect to the Bonds.

"Bond Counsel" means any firm of nationally recognized bond counsel experienced in matters relating to the tax-exempt financing of healthcare facilities, acceptable to the Authority and to the Corporation.

"Bond Fund" means the Bond Fund created in the Indenture.

"Bondholder," "holder" or "owner of the Bonds" means, pursuant to the Master Indenture, the registered owner of any Related Bond; and "Bondholder" means, pursuant to the Indenture, the Registered Holder of a Bond.

"Bonds" means the Authority's Hospital Refunding Revenue Bonds, Series 2006B (Clarian Health Obligated Group), issued in the aggregate principal amount of $375,485,000.

"Book Entry System" means a book entry system established and operated for the recordation of Beneficial Owners of the Bonds pursuant to the Indenture.

"Business Day" means any day other than a Saturday, Sunday, or other day on which commercial banks in the city in which the principal corporate trust operations office of the Trustee is located are not open for business.

"Capital Lease" means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee. The principal amount of Indebtedness in the form of Capital Lease shall be deemed to be the amount, as of the date of determination, at which the aggregate Net Rentals due and to become due under such Capital Lease would be reflected as a liability on the balance sheet of the lessee determined in accordance with generally accepted accounting principles.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, together with the regulations promulgated thereunder.

"Collateral Document" means any written instrument other than the Loan Agreement, the Master Indenture, the Supplemental Master Indentures, the Indenture or the Obligations, whereby any property or interest or rights in property of any kind is granted, pledged, conveyed, assigned, or transferred to the Authority or Trustee, or both, as security for payment of the Bonds or performance by the Corporation of its obligations under the Obligations or the Master Documents.

"Consultant" means a professional consulting firm acceptable to the Master Trustee, recognized as having the skill and experience necessary to render the particular report required, which firm shall have no interest, direct or indirect, in any Member or Obligated Group Affiliate and shall not have any partner, member, director, officer or employee who is a partner, member, director, officer or employee of any Member or Obligated Group Affiliate.

"Contract Rights" means all rights of each Member in and to contracts to which any Obligated Issuer is now or shall become a party pursuant to which any Obligated Issuer has the right to perform medical and/or management services and receive payment, reimbursement, insurance proceeds or any other form or manner of compensation, including without limitation, the Medicare and Medicaid reimbursement agreements to which any Member is a party and any and all other agreements and/or arrangements between any Member and a governmental or quasi-governmental entity pursuant to which any Member provides such healthcare services and receives any form of payment, and any other agreements pursuant to which any Member provides healthcare services on a reimbursed, capitated or other form of payment arrangement.

"Controlling Member" means the Member designated by the Obligated Group Agent to establish and maintain control over an Obligated Group Affiliate.

"Corporation" means Clarian Health Partners, Inc., an Indiana nonprofit corporation, organized and existing under the laws of the State of Indiana, and its successors and assigns under the Loan Agreement.

"Corporation Certificate" means a certificate signed by the President or a Vice President, and by either the Treasurer, Assistant Treasurer, Secretary or an Assistant Secretary of the Corporation, and delivered to the Trustee.

"Corporation Request," "Corporation Order" and "Corporation Consent" means, respectively, a written request, order, or consent signed in the name of the Corporation by the President or a Vice President, and by either the Treasurer, Assistant Treasurer, Secretary or Assistant Secretary of the Corporation and delivered to the Trustee.

"Coverage Test" means the Historical Debt Service Coverage Ratio for the Obligated Group and the Obligated Group Affiliates for the period in question is greater than or equal to 1.1:1.

"Credit Group" means the Members and the Obligated Group Affiliates.

"Days Cash on Hand" means for the period tested, (i) Unrestricted Cash and Investments divided by (ii) the quotient of (a) operating expenses less depreciation and amortization divided by (b) the number of calendar days in the period.

"Debt Service Requirements" means, with respect to the period of time for which calculated, the aggregate of (i) the payments required to be made in respect of principal (whether at maturity, or as a result of mandatory prepayment or otherwise) and interest on all outstanding Indebtedness of the Person or group of Persons involved, (ii) mandatory deposits to an irrevocable escrow or sinking fund and (iii) the amount of the Obligation Payments.

"Debt Service Reserve Fund" means the Debt Service Reserve Fund created in the Indenture.

"Debt Service Reserve Requirement" means an amount equal to the least of (a) 10% of the issue price of the Bonds, (b) the maximum annual principal and interest requirements on the Bonds outstanding on such date or (c) 125% of the average annual principal and interest requirements on the Bonds outstanding on such date.

"Escrow Obligations" means (a) with respect to any Obligations which secure a series of Related Bonds, the obligations permitted to be used to defease such series of Related Bonds under the Related Indenture, (b) with respect to any Obligations for which there are no Related Bonds, the obligations, if any, permitted to be used to defease such Obligations by the Supplemental Master Indenture under which such Obligations were issued, and (c) with respect to any other Obligations:

(i) United States Obligations; and

(ii) evidences of direct ownership of a proportionate or individual interest in future principal or interest payments on specified direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian pursuant to the terms of a custody agreement in form and substance satisfactory to the Master Trustee in which obligations are not available to satisfy creditors of the custodian.

"Event of Default" means an Event of Default as described below under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Events of Default and Remedies."

"Expense Fund" means the Expense Fund created in the Indenture.

"Fiscal Year" means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of such calendar year or such other consecutive twelve-month periods selected by the Obligated Group Agent as the fiscal year for the Members.

"Fitch" means Fitch Investors Service, L.P., a limited partnership organized and existing under the laws of the State of Delaware, its successors and assigns.

"General Intangibles" means the right to use all general intangibles (as such term is defined in the UCC) of any Member including, without limitation, trademarks, copyrights, patents, contracts, licenses, franchises, trade names, computer programs and other computer software, inventions, designs, trade secrets, goodwill, proprietary rights, customer lists, supplier contacts, sale orders, correspondence and advertising materials.

"Governing Body" means the board of directors, board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested or an executive committee of such board or any duly authorized committee of that board to which the relevant powers of that board have been lawfully delegated.

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, U.S. Treasury STRIPS, REFCORP STRIPS (stripped by the Federal Reserve Bank of New York) and any stripped securities assessed or rated "AAA" by Standard & Poor's or Moody's Investors Service at the time of purchase.

"Historical Debt Service Coverage Ratio" means, with respect to the period of time for which calculated, the ratio consisting of a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Debt Service Requirements for such period and a denominator of one; provided, however, that in calculating the Debt Service Requirements for such period, the following shall be excluded (a) principal or interest on Indebtedness paid from amounts on deposit in an irrevocable escrow established to pay such principal or interest, (b) principal or interest on Short Term Indebtedness, (c) principal or interest on Indebtedness of a Member or Obligated Group Affiliate to any other Member or Obligated Group Affiliate, any guarantee by any Member or Obligated Group Affiliate of Indebtedness of any other Member or Obligated Group Affiliate, or the joint or several liability of any Member on Indebtedness incurred by any other Member, and (d) the principal amount of any Interim Indebtedness paid during such period to the extent such principal amount is paid from a source other than revenues.

"Income Available for Debt Service" means, with respect to the period of time for which calculated, the amount, if any, by which total revenue exceeds total expenses (other than depreciation, amortization and interest together with Obligation Payments to the extent that such Obligation Payments are treated as an expense during such period of time), of the Person or group of Persons involved determined in accordance with generally accepted accounting principles; provided, however, that no determination thereof shall take into account (a) any gain or loss resulting from the extinguishment of Indebtedness, (b) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business, (c) any gain or loss resulting from any discontinued operations, (d) any gain or loss resulting from pension terminations, settlements or curtailments, (e) any unusual charges for employee severance or (f) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles.

"Indebtedness" means any indebtedness of a Person for the repayment of borrowed money (including Capital Leases, installment purchase contracts and guarantees of indebtedness) which is shown as a liability on the balance sheet of such Person or which is properly capitalized on the balance sheet of such Person in accordance with generally accepted accounting principles (including indebtedness evidenced by Obligations under the Master Indenture and indebtedness not evidenced by Obligations issued under the Master Indenture).

"Indebtedness Ratio" means the ratio determined by dividing the aggregate principal amount of Outstanding Indebtedness of the Credit Group by the sum of (i) the aggregate principal amount of such Indebtedness and (ii) total Unrestricted Net Assets of the Credit Group. For purposes of this ratio, Indebtedness shall not include the principal amount of a guaranty unless the Credit Group has made a payment on such guaranty in the last three Fiscal Years prior to the time of such measurement.

"Indenture" means the Indenture of Trust and Pledge dated as of September 1, 2006 between the Authority and the Trustee.

"Independent Counsel" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Corporation, any other Member or the Master Trustee.

"Indirect Participant" means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository through a Participant.

"Interest Account" means the Interest Account of the Bond Fund created pursuant to the Indenture.

"Interest Payment Date" means each February 15 and August 15, commencing February 15, 2007.

"Interim Indebtedness" means Indebtedness with respect to which the Obligated Group Agent certifies, at the time of the incurrence thereof, that the Obligated Group Agent expects to pay the principal amount of such Indebtedness from a source other than the revenues of the Obligated Group, including but not limited to the proceeds of other Indebtedness.

"Investment Securities" means

(a) direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury, and CATS and TGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(b) obligations issued or guaranteed by any of the following federal agencies which obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- Export - Import Bank
  - direct obligations or fully guaranteed certificates of beneficial ownership
- Farmers Home Administration
  - certificates of beneficial ownership
- General Services Administration
  - participation certificates
- \- U.S. Maritime Administration
  - guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
  - GNMA-guaranteed mortgage-backed bonds
  - GNMA-guaranteed pass-through obligations (not acceptable for certain cash-flow sensitive issues)
- U.S. Department of Housing & Urban Development
  - project notes
  - local authority bonds
  - new communities debentures - U.S. government guaranteed debentures
  - U.S. public housing notes and bonds - U.S. government guaranteed public housing notes and bonds
- Federal Housing Administration debentures
- Federal Financing Bank;

(c) obligations issued or guaranteed by any of the following United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

– Federal Home Loan Bank System
  - senior debt obligations
– Federal Home Loan Mortgage Corporation
  - participation certificates
  - senior debt obligations
– Federal National Mortgage Association
  - mortgage-backed securities
  - senior debt obligations
– Student Loan Marketing Association
  - senior debt obligations
– Resolution Funding Corporation
– Farm Credit System
  - consolidated systemwide bonds and notes;

(d) federal funds or bankers acceptances with a maximum term of one year of any bank which has a rating on unsecured, uninsured, and unguaranteed obligations on the date of purchase of at least "A" or "A-1" by S&P and at least "Prime-1" or "A-3" by Moody's. (Ratings on holding companies are not considered as the rating of the bank);

(e) commercial paper which is rated at the time of purchase, "Prime-1" or better by Moody's and "A-1" or better by S&P;

(f) investments in a money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 rated "AAAm" or "AAAm--G" or "AAm" by S&P and if rated by Moody's "Aaa" or "Aa1" or "Aa2";

(g) certificates of deposit issued by commercial banks, savings and loans associations or mutual savings banks which are secured by the Investment Securities described in clauses (a) and (b) above, which are held by the Trustee or a custodian for the Trustee; provided the Trustee has received an Opinion of Counsel that it has a perfected first lien on the obligations serving as collateral and such collateral is free from all third party liens;

(h) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation ("FDIC") or any successor organization thereto;

(i) bonds or any other obligations of any state or political subdivision of a state or any agency or instrumentality of the foregoing which are rated by Moody's and S&P in one of the two highest Rating Categories;

(j) unsecured certificates of deposit, demand deposits, including interest bearing money market accounts, trust deposits, time deposits or bankers acceptances (in each case having maturities of not more than 360 days) of any domestic bank (including the Trustee and any bank affiliated with the Trustee) including a branch office of a foreign bank, which branch office is located in the United States, provided that such bank at the time of purchase, has a short-term "Bank Deposit" rating of "Prime-1" or better by Moody's and a rating of "A-1" or better by S&P;

(k) deposits of any bank or savings and loan association (including the Trustee and any bank affiliated with the Trustee) that has combined capital, surplus and undivided profits of not less than $100,000,000, provided that such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the FDIC, or to the extent uninsured, otherwise fully secured by obligations described in (a) or (b) above;

(l) repurchase agreements with either (a) primary dealers on the Federal Reserve Reporting Dealer list which are rated at the time of purchase at least "A" by S&P and Moody's or (b) banks, including the Trustee, rated at the time of purchase at least "A" by S&P and Moody's, provided such repurchase agreement shall be consistent with any of the Investment Securities described in clauses (a) through (i) above; provided the fair market value of the collateral shall be marked to market weekly at the current market price plus accrued interest and maintained in an amount at least equal to 102% of the amount invested in the repurchase agreement; provided that if the collateral consists of obligations of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, then the value of the collateral must be maintained at least equal to 105% of the amount invested in the repurchase agreement; provided the Trustee or its agent (if the Trustee is providing the collateral, the collateral must be held by an agent) has possession of the collateral; provided failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; and

(m) any investment agreements, guaranteed investment contracts, forward purchase agreements or reserve fund put agreements.

"LaPorte" means LaPorte Regional Health Systems, Inc.

"Lien" means any mortgage, pledge or lease of, security interest in or lien, charge restriction or encumbrance on any Property of the Person involved in favor of, or which secures any obligation to, any Person other than any Member or any Obligated Group Affiliate and any Capital Lease under which any Member or Obligated Group Affiliate is lessee and the lessor is not a Member or an Obligated Group Affiliate.

"Loan Agreement" means the Loan Agreement, dated the date of the Indenture, between the Authority and the Corporation, and any amendments and supplements thereto.

"Master Documents" means the Master Indenture, all Supplemental Master Indentures and the Loan Agreement.

"Master Indenture" means the Master Trust Indenture dated as of December 1, 1996 between the Obligated Group and the Master Trustee, as it may be amended or supplemented from time to time in accordance with the provisions thereof.

"Master Trustee" means J.P. Morgan Trust Company, National Association (successor in interest to Bank One, Indianapolis, NA), or any successor trustee appointed pursuant to the provisions of the Master Indenture.

"Medicaid" means the Medicaid program as established pursuant to the Social Security Act (42 U.S.C. 1935 et seq. and related statutes) or any successor, replacement or related program.

"Medicare" means the Medicare program as established pursuant to the Social Security Act (42 U.S.C. 1395 et seq. and related statutes) or any successor, replacement or related program.

"Member" or "Member of the Obligated Group" means the Corporation, LaPorte and any other Person which has fulfilled the requirements for entry into the Obligated Group and which has not ceased such status.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the corporation by notice to the Authority and the Trustee.

"Net Rentals" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessees (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated by the Obligated Group Agent to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"Obligated Group" means the Corporation, LaPorte and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in the Master Indenture and which has not ceased such status pursuant to the Master Indenture.

"Obligated Group Affiliate" means any Person which has been designated as such in accordance with the Master Indenture so long as such Person has not been further designated as no longer being an Obligated Group Affiliate as provided in the Master Indenture.

"Obligated Group Agent" means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee and each Related Issuer executed by the President or Chairman of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

"Obligation Holder," "holder" or "Owner of the Obligation" means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

"Obligation Payments" means payments (however designated) required under any Obligation then Outstanding which does not constitute Indebtedness.

"Obligations" means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Supplemental Master Indenture, including, but not limited to bonds, notes, obligations, debentures, reimbursement agreements, loan agreements or leases. Reference to a series of Obligations or to Obligations of a series shall mean Obligations or series of Obligations issued pursuant to a single Supplemental Master Indenture.

"Officer's Certificate" means a certificate signed by the Chair or Vice Chair or other officer of the Authority as specified in an Authority Resolution, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of legal counsel, who may be legal counsel for the Authority or the Corporation.

"Outstanding" when used with reference to Bonds shall mean, as of the date of determination, all Bonds theretofore issued and delivered under the Indenture, except:

(i) Bonds cancelled by the Trustee or delivered to the Trustee canceled or for cancellation;

(ii) Bonds and portions of Bonds for whose payment or redemption moneys or Government Obligations shall have been theretofore deposited with the Trustee in trust for the Holders of such Bonds, provided, however, that if such Bonds are to be redeemed, notice of such redemption shall have been duly given pursuant to the Indenture or irrevocable instructions to call such Bonds for redemption at a stated Redemption Date shall have been given to the Trustee; and

(iii) Bonds in exchange for or in lieu of which other Bonds shall have been issued and delivered pursuant to the Indenture;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Authority or the Corporation shall be disregarded and deemed not to be Outstanding, except that in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded.

"Participant" means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository.

"Permitted Encumbrances" means any Liens on any Property created by the Master Indenture, any Related Loan Document, any Related Indenture and, as of any particular time:

(i) Liens arising by reason of good faith deposits with a Member or Obligated Group Affiliate in connection with tenders, leases or other uses of real estate, bids or contract (other than contracts for the payment of money), deposits by any Member or Obligated Group Affiliate to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member or Obligated Group Affiliate to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, pensions or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for corporations participating in such arrangements;

(ii) any Lien on any Property acquired by a Member or Obligated Group Affiliate, which Lien (A) secures Indebtedness issued, incurred or assumed by any Member or Obligated Group Affiliate in connection with and to effect such acquisition or (B) existing Indebtedness which will remain outstanding after such acquisition but will not be assumed by a Member or Obligated Group Affiliate, if in each such case the aggregate principal amount of such Indebtedness does not exceed the fair market value of the property subject to such lien as determined in good faith by the Governing Body of the Member or Obligated Group Affiliate;

(iii) any Lien on any Property of any Member or Obligated Group Affiliate granted in favor of or securing Indebtedness to any other Member or Obligated Group Affiliate;

(iv) any Lien on Property if such Lien equally or ratably secures all of the Obligations and, if the Obligated Group Agent shall so determine, any other Indebtedness of a Member or any Obligated Group Affiliate;

(v) leases which relate to Property of a Member or an Obligated Group Affiliate which is of a type that is customarily the subject of such leases, such as office space for physicians and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments; leases, licenses or similar rights to use Property to which the Corporation or an Obligated Group Affiliate (or any predecessor in interest of such parties) is a party existing as of December 31, 1996 and any renewals and extensions thereof; and any leases, licenses or similar rights to use Property whereunder a Member or an Obligated Group Affiliate is lessee, licensee or the equivalent thereof upon fair and reasonable terms no less favorable to the lessee or licensee than would obtain in a comparable arm's-length transaction;

(vi) Liens for taxes and special assessments which are not then delinquent, or if then delinquent are being contested in accordance with the Master Indenture;

(vii) utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair the operation of the Property affected thereby (or, if such Property is not being then operated, the operation for which it was designed or last modified);

(viii) any mechanic's, laborer's, materialman's, supplier's or vendor's Lien or right in respect thereof if payment is not yet due under the contract in question or if such Lien is being contested in accordance with the provisions of the Master Indenture;

(ix) such Liens, defects, irregularities of title and encroachments on adjoining property as normally exist with respect to property similar in character to the Property involved and which do not materially adversely affect the value of, or materially impair, the Property affected thereby for the purpose for which it was acquired or is held by the owner thereof, including without limitation statutory liens in favor of banks or other financial institutions, which liens have not been specifically granted to secure Indebtedness and which do not apply to Property which has been deposited as part of a plan to secure Indebtedness;

(x) zoning laws and similar restrictions which are not violated by the Property affected thereby;

(xi) statutory rights under Section 291, Title 42 of the United States Code, as a result of what are commonly known as Hill-Burton grants, and similar rights under other federal statutes or statutes of the state in which the Property is involved is located;

(xii) all right, title and interest of the state where the Property involved is located, municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way;

(xiii) Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that (A) such Liens consist solely of restrictions on the use thereof or the income therefrom, or (B) such Liens secure Indebtedness which is not assumed by any Member or Obligated Group Affiliate and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(xiv) Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which any Member or Obligated Group Affiliate shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall be in existence;

(xv) Liens on moneys deposited by patients or others with a Member or Obligated Group Affiliate as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents;

(xvi) Liens on Property due to rights of third party payors for recoupment of excess reimbursement paid;

(xvii) any Lien in any rebate fund, any depreciation reserve, debt service or interest reserve, debt service fund, bond purchase or tender fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Indenture or Related Loan Document in favor of the Master Trustee, a Related Trustee, a Related Issuer or the creditor of the Indebtedness issued or secured pursuant to such Supplemental Master Indenture, Related Indenture or Related Loan Document;

(xviii) any Lien on any Related Bond or any evidence of Indebtedness of any Member or Obligated Group Affiliate acquired by or on behalf of any Member or Obligated Group Affiliate in favor of the provider of liquidity or credit support for such Related Bond or Indebtedness;

(xix) such Liens, covenants, conditions and restrictions, if any, which do not secure Indebtedness and which are other than those of the type referred to above, and which (A) in the case of Property of the Corporation or any Obligated Group Affiliate on January 1, 1997, do not and will not, so far as can reasonably be foreseen, materially adversely affect the value of the Property currently affected thereby or materially impair the same, and (B) in the case of any other Property, do not materially impair or materially interfere with the operation or usefulness thereof for the purpose for which such Property was acquired or is held by a Member;

(xx) Liens on accounts receivable; provided that the principal amount of Indebtedness secured by any such Lien does not exceed the amount received with respect to such accounts receivable by the Member or the Obligated Group Affiliate in connection with the creation of such Lien; provided, further, that no more than 25% of the aggregate principal amount of accounts receivable of the Members and the Obligated Group Affiliates shall be subject to such Liens;

(xxi) Liens on any Property of a Member or of an Obligated Group Affiliate at January 1, 1997 or existing at the time any Person becomes a Member or an Obligated Group Affiliate; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of the Member or any Obligated Group Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(xxii) Liens on Property of a Person existing at the time such Person is merged into or consolidated with a Member or an Obligated Group Affiliate, or at the time of a sale, lease or other disposition of the Properties of a Person as an entirety or substantially as an entirety to a Member or an Obligated Group Affiliate which becomes part of a Property that secured Indebtedness that is assumed by a Member or an Obligated Group Affiliate as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of a Member or an Obligated Group Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(xxiii) Liens on any Property of a Member or an Obligated Group Affiliate securing any Indebtedness or Obligation if at the time of incurrence of such Indebtedness and after giving effect to all Liens permitted under this subsection, the aggregate amount of Indebtedness or the Obligation secured by such Liens pursuant to this subsection does not exceed 15% of the value of the total assets of the Obligated Group and Obligated Group Affiliates, as such value is shown on the most recent financial reports required to be delivered in the Master Indenture;

(xxiv) Liens on any Property of a Member or an Obligated Group Affiliate to secure any Indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the Property subject to such Lien; provided, that such Lien shall not apply to any Property theretofore owned by a Member or an Obligated Group Affiliate, other than any theretofore unimproved real property on which the Property so constructed or improved is located; and

(xxv) Liens on the Property of a Member or an Obligated Group Affiliate created by the Definitive Health Care Resources Consolidation Agreement dated May 2, 1996 among the Trustees of Indiana University, Methodist Health Group, Inc., Methodist Hospital of Indiana Inc., and the Corporation, as amended on or prior to January 1, 1997 (the "Definitive Agreement"), including, but not limited to the MHI Lease and the Indiana University Hospital Lease (as defined in such Definitive Agreement).

"Person" means any natural person, firm, joint venture, limited liability company, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Principal Payment Date" means a date upon which the principal of any Bonds shall become due, either by maturity or through the operation of a sinking fund redemption.

"Project" means the health facilities financed with the proceeds of the Refunded Bonds.

"Property" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, and wherever situated and whether now owned or hereafter acquired.

"Property, Plant and Equipment" means all Property of each Member which is classified as property, plant and equipment under generally accepted accounting principles.

"Rating Agency" according to the Master Indenture, means, as of any date, Moody's, Standard & Poor's or Fitch and their respective successors and assigns.

"Rating Categories" means one or more of the generic rating categories of a nationally recognized rating service without regard to any refinement or gradation of such rating category by numerical or other modifier.

"Rating Service" means each nationally recognized securities rating service which at the time has a credit rating assigned to the Bonds at the request of the Corporation, which shall initially be S&P, Moody's and Fitch.

"Rebate Fund" means the Rebate Fund created pursuant to the Indenture.

"Record Date" means the first day of the month of an Interest Payment Date.

"Redemption Date" means, (a) when used with respect to any Bond to be redeemed, the date on which it is to be redeemed pursuant to the Indenture, and (b) when used with respect to the Refunded Bonds, December 12, 2006.

"Refunded Bonds" means, collectively, the (i) Indiana Health Facility Financing Authority Variable Rate Demand Hospital Revenue Bonds, Series 1996B and Series 1996C (Clarian Health Partners, Inc.), (ii) Indiana Health Facility Financing Authority Variable Rate Demand Hospital Revenue Bonds, Series 2000B and Series 2000C (Clarian Health Obligated Group), and (iii) Indiana Health Facility Financing Authority Variable Rate Demand Hospital Revenue Bonds, Series 2003H and Series 2003I (Clarian Health Obligated Group).

"Refunding Fund" means the Refunding Fund created pursuant to the Indenture.

"Registered Holder" when used with respect to any Bond means the Person in whose name such Bond is registered in the Bond Register.

"Related Bonds" means any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member or Obligated Group Affiliate in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to such governmental issuer.

"Related Indenture" means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"Related Issuer" means any issuer of a series of Related Bonds.

"Related Loan Document" means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Member or Obligated Group Affiliate (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member or Obligated Group Affiliate).

"Related Rights" means all tangible chattel paper, documents and/or instruments relating to the Accounts, the General Intangibles, the Contract Rights, and the Bank Accounts and all rights now or hereafter existing in and to all security agreements, leases and other contracts securing or otherwise relating to the Accounts, the Bank Accounts, the gross revenues, the Contract Rights or the General Intangibles or any such chattel papers, documents and/or instruments.

"Related Trustee" means any trustee under any Related Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Indenture, the Related Issuer.

"Reserve Fund Credit Instrument" means any line of credit, letter of credit, guaranty, surety bond or insurance policy deposited with the Trustee and provided to satisfy the Debt Service Reserve Requirement.

"Reserve Fund Credit Instrument Agreement" means any agreement providing for the issuance of a Reserve Fund Credit Instrument.

"S&P" or "Standard & Poors" means Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Trustee.

"Securities Depository" means The Depository Trust Company and any substitute for or successor to such securities depository pursuant to the terms of the Indenture that shall maintain a Book Entry System with respect to the Bonds.

"Series 2006B Supplemental Master Indenture" means the Series 2006B Supplemental Master Indenture pursuant to which the 2006B Obligation is issued.

"Short Term Indebtedness" means Indebtedness having an original maturity less than one year and not renewable at the option of the debtor for a period greater than one year from the date of original issuance thereof.

"Sinking Fund Account" means the Sinking Fund Account of the Bond Fund created pursuant to the Indenture.

"Supplemental Master Indenture" means an indenture amending or supplementing the Master Indenture entered into pursuant to the Master Indenture.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Trustee" means J.P. Morgan Trust Company, National Association, or any successor Trustee appointed pursuant to the terms of the Indenture.

"Trust Estate" means the property and other rights assigned by the Authority to the Trustee in the granting clauses of the Indenture.

"Trust Funds" means the funds and accounts created in the Indenture, except the Rebate Fund and the accounts thereof.

"Trust Moneys" means all moneys received by the Trustee (except for amounts on deposit in the Rebate Fund and the investment income earned thereon),

(A) upon the release of property from the lien of the Master Documents, any Collateral Documents or the Indenture, or

(B) as elsewhere provided to be held and applied under the Indenture, or required to be paid to the Trustee and whose disposition is not otherwise specifically provided for in the Indenture, including, but not limited to, the investment income of all moneys (except amounts held in the Rebate Fund) held by the Trustee under the Indenture, or

(C) as payments made on the 2006B Obligation.

"2006B Obligation" means the Corporation's Master Note Obligation, Series 2006B, dated the date of issuance of the Bonds and issued in the principal amount of $375,485,000 under the Series 2006B Supplemental Master Indenture, evidencing the loan of the Bond proceeds and purchased by the Authority under the Loan Agreement from the proceeds of the Bonds.

"UCC" means the Uniform Commercial Code in effect from time to time in the State of Indiana.

"United States Obligations" means noncallable direct obligations of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America.

"Unrestricted Cash and Investments" means the aggregate amount of (a) unrestricted and unencumbered cash, (b) cash equivalents and/or (c) marketable debt and equity securities in immediately available funds, but shall not include (i) self-insurance funds, (ii) proceeds of any short-term borrowings including, without limitation, internal affiliate loans and draws on lines of credit regardless of the maturity date of the line of credit, (iii) proceeds of accounts receivable financings or factoring, (iv) proceeds of put debt not supported by a liquidity facility with term-out features, and (v) funds or investments subject to any restrictions, permanent or temporary, regardless of whether such funds or investments are considered restricted for purposes of generally accepted accounting principles.

"Unrestricted Fund Balance" means the unrestricted fund balance, capital and surplus, or other equivalent accounting classification representing the net worth of a Person.

"Unrestricted Net Assets" means the unrestricted net assets of the Credit Group determined in accordance with generally accepted accounting principles.

"Written Request" means a request in writing signed by the President or a Vice President of the Corporation or any other officers designated by the Corporation.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

Master Trust Estate; Gross Revenue Pledge

All Obligations issued under the Master Indenture are secured by a pledge of all Accounts, Bank Accounts, General Intangibles, Contract Rights and Related Rights of each Member, and each future Member of the Obligated Group, all monies and securities held from time to time by the Master Trustee under the Master Indenture, any and all real and personal property from time to time conveyed, mortgaged, pledged, assigned or transferred by a Member of the Obligated Group as additional security under the Master Indenture, and all proceeds, cash proceeds, cash equivalents, products, replacements, additions and improvements to, substitutions for and accessions of any and all such property.

Authorization, Amount and Designation of Obligations

Each Obligation issued under the Master Indenture must be authorized by the Obligated Group Agent and the Member issuing such Obligation by the adoption of the respective governing body of a board resolution. No further authorization or approval by any other Member or any Obligated Group Affiliate is required for the issuance of such Obligation. The total principal amount of Obligations, the number of Obligations and the series of Obligations that may be created under the Master Indenture is not limited except as shall be set forth with respect to any series of Obligations in the Supplemental Master Indenture providing for the issuance thereof. Each series of Obligations shall be issued pursuant to a Supplemental Master Indenture. Obligations shall be designated so as to differentiate the Obligations of such series from the Obligations of any other series.

Security for Obligations

All Obligations issued and outstanding under the Master Indenture are equally and ratably secured by the Master Indenture except to the extent specifically provided otherwise in the Master Indenture. Any one or more series of Obligations issued thereunder may, so long as any Liens created in connection therewith constitute Permitted Encumbrances, be secured by security (including without limitation letters or lines of credit, insurance or Liens on Property of the Obligated Group or Obligated Group Affiliates, or security interests in a depreciation reserve, debt service or interest reserve or debt service or similar funds). Such security need not extend to any other Indebtedness (including any other Obligations or series of Obligations). Consequently, the Supplemental Master

Indenture pursuant to which any one or more series of Obligations is issued may provide for such supplements or amendments to the provisions thereof as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto.

Payment of Amounts Due Under any Obligation; Obligated Group Affiliates

Each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group as described below), jointly and severally covenants that it will promptly pay the principal of and premium, if any, interest and any other amount payable on every Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligations according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Obligations set forth in the Master Indenture or in the Obligations, each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group), jointly and severally agrees to make payments upon each Obligation and be liable therefor at the times and in the amounts (including principal, interest and premiums, if any) equal to the amounts to be paid as interest, principal, or premium, if any, upon any Related Bonds from time to time outstanding. If any Member does not tender payment of any installment of principal, premium, interest or any other amount payable on any Obligation when due and payable, the Master Trustee shall provide prompt written notice of such nonpayment to such Member and the Obligated Group Agent.

Control of Obligated Group Affiliates

Each Controlling Member shall cause each of its Obligated Group Affiliates to pay, loan or otherwise transfer to the Obligated Group Agent or other Member (i) such amounts as are necessary to duly and punctually pay the principal of and premium, if any, interest and any other amount payable on all outstanding Obligations or portions thereof the proceeds of which were loaned or otherwise made available to such Obligated Group Affiliate or that were otherwise issued for the benefit of such Obligated Group Affiliate and any other payments, required by the terms of such Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, and (ii) such amounts that are otherwise necessary to enable each Member to comply with the provisions of the Master Indenture with respect to the other Obligations issued by a Member of the Obligated Group.

The Obligated Group Agent shall at all times maintain an accurate and complete list of all Persons designated as Obligated Group Affiliates. The Obligated Group Agent by a board resolution may designate any Person as an Obligated Group Affiliate under the Master Indenture. The Obligated Group Agent by board resolution shall also designate for each Obligated Group Affiliate a Member to serve as the Controlling Member for such Obligated Group Affiliate. Each Controlling Member shall cause the Obligated Group Affiliate to provide the Obligated Group Agent a board resolution accepting its status as Obligated Group Affiliate and acknowledging the provisions of the Master Indenture which affect the Obligated Group Affiliates. So long as a Person is designated as an Obligated Group Affiliate, the Obligated Group Agent or such Controlling Member shall either (i) maintain, directly or indirectly, control of such Obligated Group Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Obligated Group Affiliate to the extent required to cause such Obligated Group Affiliate to comply with the terms and conditions of the Master Indenture, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, or the power to appoint members, trustees or directors or otherwise, or (ii) execute and have in effect such contracts or other agreements that the Obligated Group Agent and the Controlling Member, in the sole judgment of the respective governing body, deems sufficient for the Controlling Member to cause such Obligated Group Affiliate to comply with the terms and conditions of the Master Indenture. Any Person will cease to be an Obligated Group Affiliate and will not be subject to any of the provisions of the Master Indenture upon the declaration of the governing body of the Obligated Group Agent in a board resolution, and upon such declaration, such Person shall no longer be subject to any of the covenants applicable to an Obligated Group Affiliate under the Master Indenture. The Obligated Group Agent shall deliver to the Master Trustee each board resolution designating an Obligated Group Affiliate or declaring that a Person is no longer an Obligated Group Affiliate.

Each Controlling Member covenants that it will cause each of its Obligated Group Affiliates to comply with the terms and conditions of the Master Indenture which are applicable to such Obligated Group Affiliate, and of the Related Loan Documents, if any, to which such Obligated Group Affiliate is a party.

Each Member, respectively, by becoming a Member acknowledges that the Obligated Group Agent has certain powers and duties under the Master Indenture and authorizes the Obligated Group Agent to exercise such powers and carry out such duties.

Entrance into the Obligated Group

Any Person may become a Member of the Obligated Group if: (a) such Person shall execute and deliver to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which shall be executed by the Master Trustee and the Obligated Group Agent, containing (i) the agreement of such Person (A) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Master Indenture and (B) unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group described below) to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation and (ii) representations and warranties by such Person substantially similar to those set forth in the Master Indenture except that any representation regarding organization and good standing shall refer to the actual state of organization of such Person (but with such deviations as are acceptable to the Master Trustee); (b) the Obligated Group Agent shall, by board resolution, have approved the admission of such Person to the Obligated Group; and (c) the Master Trustee shall have received (i) a certificate of the Obligated Group Agent which demonstrates that (A) immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default of the performance or observance of any covenant or condition to be performed or observed by them, and (B) the Coverage Test would be met for the most recent Fiscal Year, calculating such Coverage Test as if such Person had become a Member on the first day of such Fiscal Year, (ii) an opinion of Independent Counsel to the effect that the instrument described in clause (a) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity, and (iii) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Indentures, an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that under then existing law the consummation of such transaction, whether or not contemplated on the date of delivery of any such Related Bond, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond otherwise entitled to such exemption.

Cessation of Status as a Member of the Obligated Group

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture to cease to be a Member of the Obligated Group unless: (a) prior to cessation of such status, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled; (b) prior to and immediately after such cessation, no event of default exists under the Master Indenture and no event shall have occurred which with the passage of time or the giving of notice, or both, would become an event of default; (c) prior to cessation of such status, the Obligated Group Agent delivers to the Master Trustee a written consent to the withdrawal by such Member; (d) prior to cessation of such status, there is delivered to the Master Trustee a certificate of the Obligated Group Agent which demonstrates that the Coverage Test would be met for the most recent Fiscal Year, calculating such Coverage Test as if such Member had withdrawn from the Obligated Group on the first day of such Fiscal Year.

General Covenants

Each Member covenants to, and each Controlling Member covenants to cause each of its Obligated Group Affiliates to: (a) except as otherwise expressly provided in the Master Indenture (i) preserve its corporate or other separate legal existence, (ii) preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs as then conducted and (iii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification; provided, however, that nothing contained in the Master Indenture shall be construed to obligate such Member or Obligated Group Affiliate to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or, in the judgment of its governing body, useful in the conduct of its business; (b) promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable which if not so paid, satisfied or discharged would constitute a default or an event of default under the Master Indenture; (c) at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness; and (d) in the case of the Corporation and any Person which is a Tax-Exempt Organization at the time it becomes a Member or Obligated Group Affiliate, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

The foregoing notwithstanding, any Member or Obligated Group Affiliate may, with the prior written approval of the Obligated Group Agent, (i) cease to be a nonprofit corporation or (ii) take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if prior thereto there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form and other aspects thereof, are acceptable to the Master Trustee) to the effect that such actions would not adversely affect the validity of any Related Bond, the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Member.

Coverage Test

Each Member covenants and agrees to, and each Controlling Member covenants to cause each of its Obligated Group Affiliates to provide funds sufficient to pay promptly all payments due on its Indebtedness and other liabilities, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will, and each Controlling Member covenants that it will cause each of its Obligated Group Affiliates to, from time to time as often as necessary and to the extent permitted by law, revise its methods of operation and its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of the Master Indenture.

The Obligated Group Agent shall cause the Historical Debt Service Coverage Ratio for the Obligated Group and the Obligated Group Affiliates to be calculated no later than six months following the end of each Fiscal Year, commencing with the Fiscal Year ending December 31, 1997. If, in any Fiscal Year, such Coverage Test is not met, the Obligated Group Agent shall retain a Consultant to make recommendations to increase the Historical Debt Service Coverage Ratio for subsequent Fiscal Years to at least meet the Coverage Test or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member covenants and agrees, and each Controlling Member covenants to cause each of its Obligated Group Affiliates to follow the recommendations of the Consultant, to the extent feasible. So long as the Obligated Group Agent shall retain a Consultant and the Member shall follow, and each Controlling Member shall cause each of its Obligated Group Affiliates to follow, such Consultant’s recommendations to the extent feasible, the failure to meet the Coverage Test will not constitute an Event of Default, unless and until such Historical Debt Service Coverage Ratio falls below 1.0:1.

Restrictions on Incurrence of Additional Indebtedness

Prior to the incurrence of any long-term Indebtedness, there shall be delivered to the Master Trustee an Officer's Certificate certifying that (i) the Credit Group is in compliance with the provisions of the Master Indenture as of the date of incurrence of such long-term Indebtedness and (ii) the Indebtedness Ratio, taking into account all long-term Indebtedness which will be Outstanding upon the incurrence of the proposed long-term Indebtedness and the long-term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, does not exceed 0.65:1.00.

Merger, Consolidation, Sale or Conveyance

(a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor entity to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) ("Successor Entity") is a corporation organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such Successor Entity to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member; provided, a Member may sell or convey all or substantially all of its Property to a Successor Entity which is not a corporation;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture;

(iii) The Master Trustee shall have received a certificate of the Obligated Group Agent which demonstrates that the Coverage Test would be satisfied for the most recent Fiscal Year, calculating such Coverage Test as if such merger, consolidation, sale or conveyance had occurred on the first day of such Fiscal Year and the written approval of the Obligated Group Agent of such merger, consolidation, sale or conveyance;

(iv) The Master Trustee shall have received an opinion of Independent Counsel to the effect that the instrument described in subparagraph (a)(i) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and applications of general principles of equity;

(v) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on the original date of delivery of such Related Bonds, would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds; and

(vi) Immediately after such merger or consolidation, or such sale or conveyance, each of Methodist Hospital, Indiana University Hospital and James Whitcomb Riley Hospital for Children shall be owned by a Member.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the Successor Entity, such Successor Entity shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such Member. The Member party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities or upon the Obligations and such Member as the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any Successor Entity to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations. All Obligations so issued by such Successor Entity under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued thereunder by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance, such changes in phraseology and form (but not in substance) may be made in obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee may rely upon an opinion of Independent Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture.

(e) In addition to the changes contemplated in paragraph (a) above, a Member which is not a corporation may agree to make changes to its legal structure and create successor, assignee resulting or transferee entities of such Member subject to the following conditions in the Master Indenture. Each Member agrees that prior to the occurrence of such change, the Member will show compliance with the provisions of paragraph (a) (except as that may relate to maintenance of status as a corporation) in a manner consistent with the type of legal existence which the Member and the Successor Entity will enjoy. The Master Trustee may rely on an opinion of Independent Counsel as conclusive evidence that any such change and any assumption complies with the provisions described above and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered as described above.

(f) Each Member further covenants and agrees that each of Methodist Hospital, Indiana University Hospital and James Whitcomb Riley Hospital for Children shall not be sold, transferred or otherwise conveyed to any person who is not a Member.

Financial Statements, etc.

The Members covenant and agree that they will keep or cause to be kept proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of the Obligated Group in accordance with generally accepted accounting principles. Each Controlling Member shall cause its Obligated Group Affiliates to keep or cause to be kept proper books of records and account in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of such Obligated Group Affiliate in accordance with generally accepted principles.

The Obligated Group Agent covenants and agrees, and each Controlling Member covenants to cause its Obligated Group Affiliates, to furnish to the Master Trustee, any Related Issuer or Related Trustee:

(a) As soon as practicable, but in no event more than five months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1997, a financial report for each Member for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants approved by the Obligated Group Agent prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Member in accordance with generally accepted accounting principles and containing an audited combined balance sheet as of the end of such Fiscal Year and an audited combined statement of operations and changes in net assets for such Fiscal Year and an audited combined statement of cash flows for such Fiscal Year, together with an accompanying unaudited balance sheet, statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Members and Obligated Group Affiliates which have been required to be included in such report, showing in each case in comparative form the financial figures for the proceeding Fiscal Year, and the statement that such accountants have obtained no knowledge of any default by such Member in the fulfillment of any of the terms, covenants, provisions, or conditions of the Master Indenture, or if such accountant shall have obtained knowledge of any such default or defaults, they shall disclose in such statements the default or defaults and the date such thereof (but such accountant shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

(b) If the reports referred to in paragraph (a) above do not include the results of operations of any Obligated Group Affiliate, as soon as practicable, but in no event more than five months after the last day of each Fiscal Year beginning the with the Fiscal Year ending December 31, 1997, a financial report for such Obligated Group Affiliate for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants approved by the Obligated Group Agent, prepared on an audited combined basis to include the results of operations of all Persons required to be or combined with such Obligated Group Affiliate in accordance with generally accepted accounting principles, and containing an audited combined balance sheet as of the end of such Fiscal Year and an audited combined statement of changes in operations and changes in net assets for such Fiscal Year and a combined or consolidated statement of cash flows for such Fiscal Year, together with an accompanying unaudited balance sheet, statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Obligated Group Affiliates which have been required to be included in such report, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and the statement that such accountants have obtained no knowledge of any default by such Obligated Group Affiliate in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such accountant shall have obtained knowledge of any such default or defaults, they shall disclose in such statements the default or defaults and the dates such thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

(c) As soon as practicable, but in no event more than six months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1997, a balance sheet, statement of operations and changes in net assets including all the Members and Obligated Group Affiliates prepared based on the accompanying unaudited combined schedules delivered with the audited financial statements described in paragraphs (a) and (b) above (such balance sheet, statement of operations and changes in net assets being referred to in the Master Indenture as the "Obligated Group Financial Statements"), together with a certificate of the chief financial officer of the Obligated Group Agent stating that the Obligated Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for required consolidations) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members and the Obligated Group Affiliates and all Members and Obligated Group Affiliates are included.

(d) At the time of the delivery of the Obligated Group Financial Statements, a certificate of the chief financial officer of the Obligated Group Agent, stating that the Obligated Group Agent has made a review of the activities of each Member and Obligated Group Affiliate during the preceding Fiscal Year for the purpose of determining whether or not the Members and Obligated Group Affiliates have complied with all of the terms, provisions and conditions of the Master Indenture and that each Member and Obligated Group Affiliate has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions, or if any Member or Obligated Group Affiliate shall be in default such certificate shall specify all such defaults and the nature thereof.

If all financial statements required by the Master Indenture are filed with a Nationally Recognized Municipal Securities Information Repository (in accordance with the Securities and Exchange Commission Rule 15c2-12), the Obligated Group shall not be required to also provide such statements to the Master Trustee, the Related Issuers and the Related Trustees unless the parties request in writing copies of such statements from the Obligated Group Agent.

Upon the written request of the Master Trustee, each Member shall, and each Controlling Member shall cause each of its Obligated Group Affiliates to, at any and all times permit the Master Trustee by its representatives to inspect the properties, books of account, records, reports and other papers of the Member or Obligated Group Affiliate, except donor records, patient records, personnel records, and any other confidential records, and to take copies and extracts therefrom, and will afford and procure a reasonable opportunity to make any such inspection. Each Member shall, and each Controlling Member shall cause each of its Obligated Group Affiliates to, furnish to the Master Trustee any and all information as the Master Trustee may reasonably request, with respect to the performance by the Members or Obligated Group Affiliates of their respective covenants in the Master Indenture.

Liens on Property

The Members shall not, and a Controlling Member shall not permit any of its Obligated Group Affiliates to, create or incur or permit to be created or incurred or to exist any Lien on any Property of any Member or any Obligated Group Affiliate, except Permitted Encumbrances. Each Member shall, and each Controlling Member shall cause its Obligated Group Affiliates to, report to the Obligated Group Agent, the creation of a Lien on its Property prior to the creation of the Lien to the extent within its power and control.

Extension of Payment

In case the time for the payment of principal of or the interest payable on any Obligation shall be extended, whether or not such extension be by or with the consent of the Master Trustee, such principal or such interest so extended shall not be entitled in case of default under the Master Indenture to the benefit or security of the Master Indenture except subject to the prior payment in full of the principal of all Obligations then outstanding and of all interest thereon, the time for the payment of which shall not have been extended.

Defaults and Remedies

Each of the following events is an "event of default" under the Master Indenture:

(a) failure of the Obligated Group to pay any installment of interest or principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise; or

(b) failure of any Member to comply with, observe or perform any of the other covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 60 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 60 days but can be wholly cured, the failure of the Member to remedy such default within such 60-day period shall not constitute a default if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(c) any representation or warranty made by any Member in the Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation in connection with the sale of any Obligation or furnished by any Member pursuant to the Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Obligations; or

(d) default in the payment of the principal of, premium, if any, or interest on any Indebtedness (other than non-recourse indebtedness) of any Member as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of any Member, and which default in payment or event of default entitles the holder thereof to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an "event of default" unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 5% of the Unrestricted Fund Balance of the Obligated Group and Obligated Group Affiliates as shown on or derived from the most recent financial reports required to be delivered pursuant to the Master Indenture; or

(e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member or Obligated Group Affiliate and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 60 days; provided, however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 5% of the Unrestricted Fund Balance of the Obligated Group and Obligated Group Affiliates as shown on or derived from the most recent financial reports required to be delivered pursuant to the Master Indenture; or

(f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 30 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member (other than bankruptcy proceedings instituted by any Member against third parties), and if instituted against any Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution; or

(i) payment of any installment of interest or principal, or any premium, on any Related Bond shall not be made when the same shall become due and payable under the provisions of any Related Indenture.

Acceleration

If an Event of Default has occurred and is continuing, the Master Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of outstanding Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of all Obligations then outstanding under the Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable, subject, however, to the provisions described below under the heading "Waivers of Events of Default."

Remedies; Rights of Obligation Holders

Upon the occurrence of any event of default, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations outstanding under the Master Indenture and any other sums due under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an Event of Default shall have occurred, and if it shall have been requested so to do by either the holders of 25% or more in aggregate principal amount of Obligations outstanding or the holder of an Accelerable Instrument upon whose request pursuant to the Master Indenture the Master Trustee has accelerated the Obligations and if it shall have been indemnified as provided in the Master Indenture, the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Master Indenture as the Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so requested may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or event of default under the Master Indenture, whether by the Master Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

Direction of Proceedings by Holders

The holders of a majority in aggregate principal amount of the Obligations then outstanding which have become due and payable in accordance with their terms or have been declared due and payable as described above and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of a majority in aggregate principal amount of the Obligations then outstanding in the case of any other remedy, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture and that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of the Obligations not parties to such direction. Pending such direction from the holders of a majority in aggregate principal amount of the Obligations outstanding, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request the Master Trustee has accelerated the Obligations.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Obligations then outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, the Supplemental Master Indenture or Indentures pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture.

Rights and Remedies of Obligation Holders

No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless a default shall have become an event of default and (a) the holders of 25% or more in aggregate principal amount (i) of the Obligations which have become due and payable in accordance with their terms or have been declared due and payable as described above and have not been paid in full in the case of powers exercised to enforce such payment or (ii) the Obligations then outstanding in the case of any other exercise of power or (b) the holder of an Accelerable Instrument upon whose request the Master Trustee has accelerated the Obligations, shall have made written request to the Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted in the Master Indenture or to institute such action, suit or proceeding in its own name, and unless also, in each case, such holders have offered to the Master Trustee indemnity as provided in the Master Indenture, and unless the Master Trustee shall thereafter fail or refuse to exercise the powers granted in the Master Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the option of the Master Trustee to be conditions precedent to the execution of the powers and trusts of the Master Indenture and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy under the Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by its, his or their action or to enforce any right under the Master Indenture except in the manner provided in the Master Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Master Indenture and for the equal benefit of the holders of all Obligations outstanding. Nothing in the Master Indenture contained shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations issued under the Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed.

Waivers of Events of Default

If, at any time after the principal of all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Master Indenture and before the acceleration of any Related Bond, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the Master Trustee, and any and all events of default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Obligations then outstanding and the holder of each Accelerable Instrument who requested the giving of notice of acceleration, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon.

Acceptance of Trusts

The Master Trustee, prior to the occurrence of an event of default and after the curing of all events of default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture and to perform such duties as an ordinarily prudent trustee under a corporate mortgage, and no implied covenants or obligations should be read into the Master Indenture against the Master Trustee. If an event of default under the Master Indenture shall have occurred and be continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Indenture and shall use the same degree of care as a prudent man would exercise or use in the circumstances in the conduct of his own affairs.

Corporate Master Trustee Required; Eligibility

There shall at all times be a Master Trustee under the Master Indenture which shall be a bank or trust company organized under the laws of the United States of America or any state thereof, authorized to exercise corporate trust powers, subject to supervision or examination by federal or state authorities, and (except for the Master Trustee initially appointed under the Master Indenture and its successors) having a reported combined capital and surplus of at least $25,000,000. If at any time the Master Trustee shall cease to be eligible, it shall resign immediately in the manner provided in described below. No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee shall become effective until the successor Master Trustee has accepted its appointment under the Master Indenture.

Resignation and Removal of Master Trustee

The Master Trustee and any successor Master Trustee may at any time resign from the trusts created under the Master Indenture by giving thirty days' written notice to the Obligated Group Agent and by registered or certified mail to each registered owner of Obligations then outstanding and to each holder of Obligations as shown by the list of Obligation holders required by the Master Indenture to be kept at the office of the Master Trustee. Such resignation shall take effect at the end of such thirty days or when a successor Master Trustee has been appointed and has assumed the trusts created by the Master Indenture, whichever is later, or upon the earlier appointment of a successor Master Trustee by the Obligation holders or by the Obligated Group. Such notice to the Obligated Group Agent may be served personally or sent by registered or certified mail.

The Master Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Master Trustee and to the Obligated Group Agent, and signed by the owners of a majority in aggregate principal amount of Obligations then outstanding; provided that, if any Related Issuer so elects, it may sign such an instrument as the Owner of the Obligation or Obligations pledged to secure the Related Bonds issued by such Related Issuer.

Appointment of Successor Master Trustee

In case the Master Trustee shall resign or be removed, or be dissolved, or shall be in the process of dissolution or liquidation, or otherwise becomes incapable of acting, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the owners of 51% in aggregate principal amount of Obligations then outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their attorneys in fact, duly authorized. The foregoing notwithstanding, so long as the Obligated Group is not in default under the Master Indenture, the Obligated Group shall have the right to approve any such successor trustee. If a successor trustee shall not have been appointed within 30 days after notice of resignation by or removal of the Master Trustee, the Obligated Group or any holder of an Obligation may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided. Every such successor Master Trustee appointed pursuant to the provisions of the Master Indenture shall be a trust company or bank in good standing under the law of the jurisdiction in which it was created and by which it exists, having corporate trust powers and subject to examination by federal or state authorities, and having a reported capital and surplus of not less than $50,000,000.

Supplemental Master Indentures Not Requiring Consent of Obligation Holders

Subject to the limitations described below, the Members and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation;

(b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member;

(c) To assign and pledge under the Master Indenture any additional revenues, properties or collateral;

(d) To evidence the succession of another corporation to the agreements of a Member or the Master Trustee, or the successor of any thereof;

(e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States;

(f) To provide for the refunding or advance refunding of any Obligation;

(g) To provide for the issuance of Obligations;

(h) To reflect the addition to or withdrawal of a Member from the Obligated Group;

(i) To provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of outstanding Obligations;

(j) To permit an Obligation to be secured by security which is not extended to all Obligation holders;

(k) To permit the issuance of Obligations which are not in the form of a promissory note;

(l) To modify or eliminate any of the terms of the Master Indenture; provided, however, that: such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Obligation outstanding of any series created prior to the execution of such Supplemental Master Indenture; and the Master Trustee may, in its discretion, decline to enter into any such Supplemental Master Indenture which, in its opinion, may not afford adequate protection to the Master Trustee when the same becomes operative; and

(m) To make any other change which, in the opinion of the Master Trustee, does not materially adversely affect the holders of any of the Obligations and, in the opinion of each Related Trustee, does not materially adversely affect the holders of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental hereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Indenture from federal income taxation under applicable provisions of the Code.

Supplemental Master Indentures Requiring Consent of Obligation Holders

In addition to Supplemental Master Indentures discussed above and subject to the terms and provisions described below, and not otherwise, the holders of not less than 51% in aggregate principal amount of the Obligations which are outstanding at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Obligations of each series affected thereby which are outstanding at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Members for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing described above or below shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken, except as otherwise permitted in the Master Indenture, or (c) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

For the purpose of obtaining the foregoing consents, the determination of who is deemed the holder of an Obligation held by a Related Trustee shall be made as provided in the Master Indenture. In addition, the Related Indenture or Supplemental Master Indenture may provide that the holders of the series of Related Bonds being issued in connection therewith shall be deemed to have consented to certain modifications or amendments to the Master Indenture described in an amendatory Supplemental Master Indenture (the "Proposed Amendments") by the purchase of such series of Related Bonds by the holders thereof. Such deemed consent shall be effective on the date of initial delivery of such series of Related Bonds and such consent will be binding on all subsequent holders of such series of Related Bonds.

Satisfaction of the Master Indenture

If the Members shall pay or provide for the payment of the entire indebtedness on all Obligations (including any Obligations owned by a Member) outstanding in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations outstanding, as and when the same become due and payable;

(b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations, in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

(c) by delivering to the Master Trustee, for cancellation by it, all Obligations outstanding; or

(d) by depositing with the Master Trustee, in trust, before maturity, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations outstanding at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then and in that case (but subject to the provisions of the Master Indenture) the Master Indenture and the estate and rights granted under the Master Indenture shall cease, determine, and become null and void, and thereupon the Master Trustee shall, upon Written Request of the Obligated Group Agent, and upon receipt by the Master Trustee of an Officer's Certificate from the Obligated Group Agent and an opinion of Independent Counsel acceptable to the Master Trustee, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Master Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Master Indenture and the lien thereof. The satisfaction and discharge of the Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection herewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

Provision for Payment of a Particular Series of Obligations or Portion Thereof

If the Obligated Group shall pay or provide for the payment of the entire indebtedness on all Obligations of a particular series or a portion of such a series (including any such Obligations owned by a Member or an Obligated Group Affiliate) in one of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations of such series or portion thereof outstanding, as and when the same shall become due and payable;

(b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations of such series or portion thereof outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

(c) by delivering to the Master Trustee, for cancellation by it, all Obligations of such series or portion thereof outstanding; or

(d) by depositing with the Master Trustee, in trust, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group with respect to such series of Obligations or portion thereof, and, if any such Obligations of such series or portion thereof are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then in that case (but subject to the provisions of the Master Indenture) such Obligations shall cease to be entitled to any lien, benefit or security under the Master Indenture. The liability of the Obligated Group in respect of such Obligations shall continue but the holders thereof shall thereafter be entitled to payment (to the exclusion of all other Obligation holders) only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

Satisfaction of Related Bonds

Notwithstanding the satisfaction provisions of the Master Indenture, any Obligation which secures a Related Bond (i) shall be deemed paid and shall cease to be entitled to the lien, benefit and security under the Master Indenture in the circumstances described in subsection (b)(ii) of the definition of "Outstanding Obligations" in the Master Indenture; and (ii) shall not be deemed paid and shall continue to be entitled to the lien, benefit and security under the Master Indenture unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Indenture pursuant to the provisions thereof.

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2006B SUPPLEMENTAL MASTER INDENTURE

The 2006B Obligation is issued pursuant to the Master Indenture as supplemented by the Series 2006B Supplemental Master Indenture. The Corporation agrees to make payments of principal and interest on the 2006B Obligation ten business days prior to the date principal and interest are due on the Bonds. In addition, the Series 2006B Supplemental Master Indenture provides that the 2006B Obligation will be subject to prepayment prior to maturity to the extent that the Bonds are subject to redemption prior to maturity.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT AND THE 2006B OBLIGATION

Under the Loan Agreement, the Authority will loan to the Corporation the proceeds of the Bonds for the purpose of (i) currently refunding the Refunded Bonds and (ii) paying certain costs of issuance of the Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS." As evidence of its obligation to repay such loan, together with interest and premium, if any, thereon, the Corporation will issue and deliver to the Authority the 2006B Obligation. The 2006B Obligation will be issued in an amount equal to the aggregate principal amount of the Bonds, will be payable in installments at the same times as the maturities and mandatory redemption terms of the Bonds (subject to certain credits), will be subject to optional redemption at the same times and with the same redemption premiums, if any, as are applicable to the Bonds, and will bear interest on unpaid installments of principal equal to the interest rates per annum on the Bonds (subject to certain credits).

The 2006B Obligation will be registered in the name of the Trustee. Except as provided in the Loan Agreement and the Indenture, the loan to be made under the Loan Agreement is to be evidenced solely by the 2006B Obligation and the obligation to make loan repayments does not exist separate or independent of the 2006B Obligation.

The Loan Agreement contains covenants of the Corporation relating to the Corporation's tax-exempt status, to the funding of the Debt Service Reserve Fund upon the occurrence of certain events, to indemnification of the Authority and the Trustee, and to the application of the proceeds of the sale of the Bonds.

The Indenture provides that, without the consent of the holders of any Bonds, the Trustee, at any time and from time to time, may, consent to one or more amendments to the Loan Agreement, for any of the following purposes: (a) to evidence the succession of another corporation to the Corporation or any Member or successive successions and the assumption by the successor corporation of the covenants, agreements and obligations of the Corporation or any Member pursuant to the Master Indenture; (b) to add to the covenants of the Corporation or any Member such further covenants, restrictions or conditions as its governing body and the Trustee shall consider to be for the protection of the holders of Bonds issued under the Indenture; (c) to cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any supplemental indenture which may be defective or inconsistent; and (d) to modify or supplement the Master Indenture in such manner as may be necessary or appropriate to qualify the Master Indenture under the Trust Indenture Act of 1939 or similar statute.

With the consent of the holders of not less than a majority in principal amount of the Bonds then Outstanding which are affected by such amendment and notice to a Rating Service by act of said holders delivered to the Trustee, the Trustee may enter into an amendment or amendments to the Loan Agreement, for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Loan Agreement; provided, however, that no such amendment shall, without the consent of the holder of Outstanding Bonds affected thereby; (a) reduce the aggregate amounts payable under the 2006B Obligation, or allow any installment of principal or interest thereof to be paid subsequent to the time needed for the payment of principal, premium, if any, and interest on the Bonds; or (b) modify any of the provisions of the Loan Agreement to eliminate the requirement that the Trustee or the bondholders consent to an amendment thereto.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following summarizes certain provisions of the Indenture between the Authority and the Trustee.

Pledge and Assignment

Under the Indenture the Authority pledges and assigns to the Trustee, for the benefit of the holders from time to time of the Bonds (i) all of its right, title and interest in, to and under the Loan Agreement (except for certain rights of the Authority for indemnification and administration expenses under the Loan Agreement), the Master Indenture, the Series 2006B Supplemental Master Indenture and the 2006B Obligation, and (ii) all property of any kind subjected to the lien of the Indenture or assigned to the Trustee pursuant to the provisions of the Indenture, including all cash and securities held by the Trustee in the Trust Funds established under the Indenture (except for the Rebate Fund) and all earnings thereon.

Funds and Accounts

There are established in the Indenture the following funds and accounts: a Bond Fund (including an Interest Account and a Sinking Fund Account), an Expense Fund, a Refunding Fund, an Optional Redemption Fund, a Debt Service Reserve Fund and a Rebate Fund.

From the payments to be made on the 2006B Obligation, the Trustee is required to deposit said amounts as follows: (a) first, into the Interest Account, the deposits of the payments of interest due on the 2006B Obligation; and (b) second, into the Sinking Fund Account, the balance of any such payment or other money received. On or before each Interest Payment Date, the Trustee is required to make payments of interest on the Bonds from the Interest Account; and on or before each Principal Payment Date the Trustee is required to pay principal on the Bonds (whether by reason of maturity or through mandatory redemption) from the Sinking Fund Account. If on any Interest Payment Date there are not sufficient amounts on deposit in the Interest Account to pay the total amount of interest coming due on such Interest Payment Date, the Trustee will transfer any moneys then on deposit in the Sinking Fund Account in an amount equal to such deficiency to the Interest Account.

Moneys in the Expense Fund will be used for the payment of expenses for any recording, trustee's and depositary's fees and expenses, accounting and legal fees, financing costs, printing costs, rating service fees and other fees and expenses incurred by or to be incurred by or on behalf of the Authority or the Corporation in connection with the issuance and sale of the Bonds.

Moneys in the Refunding Fund shall be used to pay interest on the Refunded Bonds through and including the Redemption Date and principal on the Refunded Bonds on the Redemption Date.

Amounts which are prepaid on the 2006B Obligation are to be deposited into the Optional Redemption Fund and are to be used by the Trustee to pay the principal of, premium, if any, and interest on the Bonds subject to and called for redemption (other than mandatory redemption of Bonds as described under the caption "THE BONDS—Redemption—*Mandatory Sinking Fund Redemption*") or to purchase such Bonds on the open market and to present them to the Trustee for cancellation in lieu of such redemption. See the information herein under the caption "THE BONDS—Redemption."

As provided in the Loan Agreement and the Indenture, a Debt Service Reserve Fund will be funded by the Corporation in an amount equal to the Debt Service Reserve Requirement within 60 days of the occurrence of the following events: (i) Days Cash on Hand is less than 90 days on an Annual Evaluation Date; or (ii) the Historical Debt Service Coverage Ratio is less than 1.50 on any Annual Evaluation Date. The Trustee shall, immediately upon the receipt of an Officer's Certificate of the Obligated Group Agent, instruct the Trustee to release the Debt Service Reserve Fund if, for two consecutive Fiscal Years after such funding: (i) on each Annual Evaluation Date in such Fiscal Years, Days Cash on Hand is not less than 90; and (ii) on the Annual Evaluation Date for each of such Fiscal Years, the Historical Debt Service Coverage Ratio is not less than 1.50. The Corporation may fund all or a portion of the Debt Service Reserve Requirement by depositing one or more Reserve Fund Credit Instruments in the Debt Service Reserve Fund.

If on any Interest Payment Date or Principal Payment Date there shall exist a deficiency in the Interest Account or Sinking Fund Account, the Trustee shall transfer from the Debt Service Reserve Fund to the Interest Account or Sinking Fund Account (in the order stated) an amount equal to such deficiency. The Trustee shall draw first on any cash or investments held therein, and then on any Reserve Fund Credit Instruments on a pro rata basis in accordance with the provisions of the Reserve Fund Credit Instrument Agreement, for purposes of paying such deficiency.

This paragraph shall be applicable so long as a Reserve Fund Credit Instrument is in full force and effect. If there is a deficiency in the Interest Account or the Sinking Fund Account on the twentieth day of the month preceding any Interest Payment Date or Principal Payment Date, the Trustee shall immediately notify the provider of such Reserve Fund Credit Instrument of such deficiency in accordance with the terms of the Reserve Fund Credit Instrument Agreement. If a drawdown is made on the Reserve Fund Credit Instrument, the Trustee shall direct the Corporation to reinstate the maximum limit of such Reserve Fund Credit Instrument in accordance with the terms of the Reserve Fund Credit Instrument Agreement. In the event that the Reserve Fund Credit Instrument is terminated in accordance with the Reserve Fund Credit Instrument Agreement, the Corporation shall either (1) make deposits in the Debt Service Reserve Fund in twelve (12) equal consecutive monthly installments beginning with the first day of the next succeeding month after such termination in an amount necessary to fully fund the Debt Service Reserve Requirement by the end of such twelve (12) month period or (2) provide a substitute Reserve Fund Credit Instrument which is sufficient to satisfy the Debt Service Reserve Requirement.

If a substitute Reserve Fund Credit Instrument is provided, the Trustee shall draw on such Reserve Fund Credit Instrument in accordance with its terms and the terms of the Reserve Fund Credit Instrument related thereto. At the time of any termination of any substitute Reserve Fund Credit Instrument, the Corporation shall be required either (1) to make deposits in the Debt Service Reserve Fund in twelve (12) equal consecutively monthly installments beginning with the first day of the next succeeding month after such termination in an amount necessary to fully fund the Debt Service Reserve Requirement by the end of such twelve (12) month period or (2) provide a substitute Reserve Fund Credit Instrument which is sufficient to satisfy the Debt Service Reserve Requirement, except in the event of a withdrawal from the Debt Service Reserve Fund, the Debt Service Reserve Fund shall be valued immediately thereafter and monthly thereafter until the Debt Service Reserve Fund is at its required level.

So long as a Reserve Fund Credit Instrument is in full force and effect, a valuation of the Trust Funds held in the Debt Service Reserve Fund pursuant to the Indenture shall treat the maximum amount available under such Reserve Fund Credit Instrument as its value. Further, if the Corporation elects to fund the Debt Service Reserve Fund over a twelve (12) month period after the termination of a Reserve Fund Credit Instrument as provided in the two preceding paragraphs, no valuation of the Trust Funds held in the Debt Service Reserve Fund shall be made during this period. In any other event, the Debt Service Reserve Fund shall be valued once every six months and transfers or deposits made thereto in accordance with this subsection (e), except in the event of a withdrawal from the Debt Service Reserve Fund, the Debt Service Reserve Fund shall be valued immediately thereafter and monthly thereafter until the Debt Service Reserve Fund is at its required level. If at the time of valuation of the Trust Funds, the sum of moneys and the value of the investments on deposit in the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, the Trustee shall immediately transfer such excess from cash or investments held in the Debt Service Reserve Fund to the Sinking Fund Account. The amount transferred to the Sinking Fund Account shall not exceed the amount required to provide therein for the payment of principal on the Bonds due within the succeeding thirteen (13) months whether by maturity or mandatory redemption and the balance, if any, shall be transferred to the Interest Account. If at the time of the valuation of the Trust Funds, the sum of moneys and the value of the investments on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the Trustee shall notify the Corporation and direct the Corporation to make deposits in the Debt Service Reserve Fund, (1) in four (4) equal consecutive monthly installments beginning with the first day of the next succeeding month after such notification the amounts necessary to eliminate such deficiency by the end of such four (4) month period, if such deficiency results from a decrease in the value of the Investment Securities held in the Debt Service Reserve Fund and (2) in twelve (12) equal consecutive monthly installments beginning with the first day of the next succeeding month after such notification the amount necessary to eliminate such deficiency by the end of such twelve (12) month period, in the event such deficiency results from a withdrawal from the Debt Service Reserve Fund.

These provisions may be amended by the Authority and the Trustee pursuant to a Corporation Request without Bondholder consent, to conform the provisions hereof to any specific provisions that may be required by a provider of a Reserve Fund Credit Instrument in a Reserve Fund Credit Instrument Agreement.

Certain amounts may be held from time to time in the Rebate Fund to comply with the arbitrage and rebate requirements under the Code.

The Trustee shall invest all Trust Moneys on hand from time to time as specified in a request of the Corporation in Investment Securities.

Events of Default and Remedies

An Event of Default includes: (1) default in the payment of the principal of, premium, if any, or interest upon any Bond when the same becomes due and payable; or (2) default in the performance or breach of any covenant or warranty of the Authority contained in the Indenture (other than a default described in (1) above or (3) below), and continuance of such default or breach for a period of thirty (30) days after there has been given, by registered or certified mail, to the Authority and the Corporation by the Trustee or to the Authority, the Corporation and the Trustee by the holder of holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, a written notice specifying such default or breach and requiring it to be remedied; or (3) a default under the Loan Agreement; or (4) an event of default under the Master Indenture.

Upon the occurrence and continuance of an Event of Default, and upon the acceleration of the 2006B Obligation under the Master Indenture, the maturity of the Bonds shall, without further action, be accelerated; provided that if after the 2006B Obligation has been accelerated, the acceleration of the maturity of the 2006B Obligation shall be annulled in accordance with the Master Indenture, then the acceleration of the maturity of the Bonds shall automatically be annulled and the Trustee shall promptly give (i) written notice of such annulment to the Authority, the Corporation and the Master Trustee in accordance with the provisions of the Indenture, and (ii) notice to the Bondholders by mailing in the same manner as a notice of redemption under the Indenture; provided, however, that no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon the happening and continuance of any Event of Default while any such failure is continuing, the Trustee in its discretion may, and upon the written request of the holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction shall, take any one or more or the following steps:

(a) by mandamus or other suit, action or proceeding at law or in equity enforce all rights of the bondholders, and require the Authority or the Corporation or both of them to carry out any agreements with or for the benefit of the bondholders and to perform its or their duties under the Act, the Master Indenture, the Loan Agreement and the Indenture;

(b) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the bondholders; or

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the bondholders.

Anything in the Indenture to the contrary notwithstanding, the holders of a majority in aggregate principal amount of the Bonds then Outstanding thereunder shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Indenture, or the pursuit of any remedy under the Indenture or on the Bonds, unless: (i) such holder previously shall have given to the Trustee written notice of an Event of Default as provided in the Indenture; (ii) the holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee to execute such trust or trusts or pursue such remedy or remedies, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers, or to institute such action, suit or proceeding in its or their name; (iii) there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and (iv) the Trustee shall not have complied with such request within a reasonable time.

No remedy conferred upon or reserved to the Trustee or to the holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every remedy shall be cumulative, and shall be in addition to every other remedy given under the Indenture or at the time of issuance of the Bonds or thereafter existing at law or in equity or by statute.

All moneys received under the provisions described above, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, shall be deposited in the Bond Fund and all moneys so deposited in the Bond Fund during the continuance of an Event of Default (other than moneys for the payment of Bonds which have matured or otherwise become payable prior to such Event of Default) shall (after payment of the fees and expenses of the Trustee) be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First -- To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amounts available shall not be sufficient to pay in full any particular installment then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

Second -- To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds which have matured or otherwise become payable prior to such Event of Default and moneys for the payment of which are held in the Bond Fund or otherwise held by the Trustee), with interest on such principal at the rate or rates borne by such Bonds from the respective dates upon which the same became due and, if the amount available shall not be sufficient to pay in full the principal amount, premium, if any, and interest due on any particular date, then to the payment ratably, according to the principal amount due on such date, to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and premium, if any, then due and unpaid upon the Bonds, with interest on overdue principal, premium, if any, and interest without discrimination or privilege of principal or premium, if any, over interest or of interest over principal and premium, if any, or of any installment of any Bond over any other Bond, ratably, according to the amounts due respectively for principal, premium, if any, and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions described above, then, subject to the provisions of paragraph (b) above which shall be applicable in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) above.

The Trustee will be the holder of the 2006B Obligation under the Master Indenture and, as such, it has only those rights and remedies specified in the Master Indenture for a holder of Obligations upon a default by the Corporation thereunder, except that to the extent action may be taken by a specified percentage of holders under the Master Indenture, the holders of a corresponding percentage of Bonds will be deemed to be holders for such purpose. See the information herein under the captions "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Remedies; Rights of Obligation Holders."

Amendments and Supplements

Without the consent of the holders of any Bonds, the Authority, when authorized by an Authority Resolution, and the Trustee may enter into one or more supplemental indentures, in form satisfactory to the Trustee for the following purposes;

(a) To correct or amplify the description of the Trust Estate, or better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the lien of the Indenture, or to subject to the lien of the Indenture additional property or to subject to the lien and pledge of the Indenture additional revenues, properties or collateral; or

(b) To add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of Bonds other conditions, limitations and restrictions thereafter to be observed; or

(c) To add to the covenants of the Authority, for the benefit of the holders of the Bonds, or to surrender any right or power conferred upon the Authority in the Indenture; or

(d) To cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision of the Indenture, or to make any other provisions with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture, provided such action shall not adversely affect the interests of the holders of the Bonds then Outstanding; or

(e) To modify or supplement the Indenture in such manner as may be necessary or appropriate to qualify the Indenture under the Trust Indenture Act of 1939, as amended from time to time; or

(f) To provide for a Book Entry System.

With the consent of the holders of not less than a majority in principal amount of the Bonds Outstanding which are affected by such supplemental indenture and notice to a Rating Service, by act of said holders delivered to the Authority, the Corporation and the Trustee, the Authority, when authorized by an Authority Resolution, and the Trustee may enter into a supplemental indenture or indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the holders of the Bonds under the Indenture, provided, however, that no such supplemental indenture shall, without the consent of the holder of each Outstanding Bond affected thereby,

(a) change the maturity of the principal of, or any installment of interest on, any Bond, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bond or the premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or

(b) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences) provided for in the Indenture, or

(c) modify any of the provisions of the Indenture relating to amendment of the Loan Agreement or the Indenture, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each Bond affected thereby.

Under the Master Indenture, for certain purposes the holder of each Bond is considered a holder of a corresponding amount of the 2006B Obligation and may consent to amendments to the Master Indenture or to Supplemental Master Indentures as provided herein under the captions "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Supplemental Master Indentures Requiring Consent of Obligation Holders."

Defeasance

Whenever the conditions specified in either clause (1) or clause (2) of the following subsection A, and the conditions specified in the following subsections B and C shall exist, namely:

A. either

(1) Bonds theretofore authenticated and delivered have been cancelled by the Trustee or delivered to the Trustee for cancellation, excluding, however,

(a) Bonds for whose payment money has been deposited in trust or segregated and held in trust by the Trustee and thereafter repaid to the Corporation or discharged from such trust, as provided in the Indenture, and

(b) Bonds alleged to have been destroyed, lost or stolen which have been replaced or paid as provided in the Indenture, and (i) which, prior to the satisfaction and discharge of the Indenture, have not been presented to the Trustee with a claim of ownership and enforceability by the holder thereof, or (ii) whose enforceability by the holder thereof, has been determined adversely to the holder by a court of competent jurisdiction or other competent tribunal;

or

(2) the Authority or the Corporation has deposited or caused to be deposited with the Trustee, in trust, cash and/or Government Obligations which do not permit the redemption thereof at the option of the issuer, the principal of, premium, if any, and interest on which when due (or upon the redemption thereof at the option of the holder), will, without reinvestment, provide cash which, together with the cash, if any, deposited with the Trustee at the same time, shall be sufficient to pay and discharge the entire indebtedness on Bonds, not theretofore cancelled by the Trustee or delivered to the Trustee for cancellation, for interest, principal and premium, if any, which have become due and payable, or to the maturity or Redemption Date, as the case may be, and has made arrangements satisfactory to the Trustee for the giving of notice of redemption, if any, by the Trustee in the name, and at the expense, of the Corporation in the same manner as is provided in the Indenture;

B. the Authority or the Corporation has paid, caused to be paid or made arrangements satisfactory to the Trustee for the payment of all other sums payable under the Indenture including fees and expenses of the Trustee and any rebate to the United States of America required under the Code and the Indenture; and

C. the Authority or the Corporation has delivered to the Trustee a Corporation Certificate and an opinion of Bond Counsel each stating that all conditions herein provided for relating to the satisfaction and discharge of the Indenture have been complied with;

D. then, upon Authority Request or Corporation Request authorized by a resolution of the Authority or the Corporation the Indenture and the lien, rights and interests thereby granted shall cease, determine and become null and void, and the Trustee and each co-trustee and separate trustee, if any, then acting as such thereunder shall, at the expense of the Corporation, execute and deliver such instruments of satisfaction as may be necessary, and forthwith the estate, right, title and interest of the Trustee in and to all of the Trust Estate and in and to all rights under the Master Documents, the Loan Agreement, the 2006B Obligation, and any Collateral Documents, (except the moneys and/or Government Obligations deposited as required above) shall thereupon be discharged and satisfied, and the Trustee shall in such case transfer, deliver and pay the same to the Corporation or upon a Corporation Order.

In the absence of an Authority Request or a Corporation Request authorized by a resolution of the Authority or the Corporation, the payment of all Bonds Outstanding shall not render the Indenture inoperative.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Indiana Health and Educational Facility
Financing Authority
Indianapolis, Indiana

Citigroup Global Markets Inc.
Chicago, Illinois

J.P. Morgan Trust Company, National Association,
as Bond Trustee and Master Trustee
Indianapolis, Indiana

Merrill Lynch, Pierce, Fenner
& Smith Incorporated
New York, New York

Re: Indiana Health and Educational Facility Financing Authority Hospital Refunding Revenue Bonds, Series 2006B (Clarian Health Obligated Group) issued in the aggregate principal amount of $375,485,000 (the "Bonds") pursuant to the Indenture of Trust and Pledge dated as of September 1, 2006 (the "Bond Indenture"), between the Indiana Health and Educational Facility Financing Authority (the "Authority") and J.P. Morgan Trust Company, National Association, as Trustee (the "Bond Trustee"), which Bond Indenture contains an assignment of the Authority's rights under the Loan Agreement, dated as of September 1, 2006 (the "Loan Agreement"), between the Authority and Clarian Health Partners, Inc. (the "Corporation"), and the Master Note Obligation, Series 2006B of the Corporation (the "Note") issued pursuant to the Master Trust Indenture, dated as of December 1, 1996 (the "Master Indenture"), between the Members of the Obligated Group, from time to time, and J.P. Morgan Trust Company, National Association (as successor to Bank One, Indianapolis NA), as Trustee (the "Master Trustee"), as supplemented by a Series 2006B Supplemental Master Indenture, dated as of September 1, 2006 (the "Supplemental Master Indenture").

Ladies and Gentlemen:

We have examined a certified transcript of proceedings relating to (a) the creation and organization of the Authority; (b) the authorization, issuance and sale of the Bonds; (c) the authorization and execution of the Bond Indenture, the Loan Agreement, the Master Indenture, the Supplemental Master Indenture and the Note; (d) an opinion of Norman G. Tabler, Esquire, Indianapolis, Indiana, general counsel for the Corporation; (e) executed counterparts of the Loan Agreement, the Bond Indenture and the Supplemental Master Indenture; (f) a certificate of officers of the Authority, of even date herewith, regarding the execution of the Bonds and showing no litigation pending or threatened; (g) certificates of officers of the Bond Trustee regarding the execution of the Bond Indenture, authentication of the Bonds, the guarantee of the signatures on the Bonds and showing payment for and delivery of the Bonds; (h) a letter from the Internal Revenue Service evidencing that the Members of the Obligated Group and the Obligated Group Affiliates (as defined in the Master Indenture) (the "Credit Group") are exempt from taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as in effect on the date hereof (the "Code"); (i) the executed Note; (j) certificates and other agreements of the Credit Group, of even date herewith; and (k) an executed Internal Revenue Service Form 8038.

We have also examined Indiana Code 5-1-16, as amended, and such other provisions of the constitution and laws of the State of Indiana (the "State") as we have deemed relevant and necessary as a basis for the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon representations and covenants of the Credit Group and the Authority contained in the Loan Agreement and the Bond Indenture and in the certified transcript of proceedings and other certificates of officers furnished to us, including the tax covenants and representations of the Authority and the Credit Group (the "Tax Covenants"), without undertaking to verify the same by independent investigation.

Based on the foregoing and our review of such other information, papers and documents as we believe necessary or advisable, we are of the opinion that:

1. The Loan Agreement has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery thereof by the Corporation, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

2. The Bond Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery thereof by the Bond Trustee, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

3. The Bonds have been duly authorized, executed and issued and are valid and binding limited obligations of the Authority enforceable in accordance with their terms.

4. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

5. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is excludable from gross income pursuant to Section 103 of the Code for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Credit Group and the Authority with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue.

It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee and the Credit Group and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee and the Credit Group and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

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Clarian Health Partners
Methodist | IU | Riley

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